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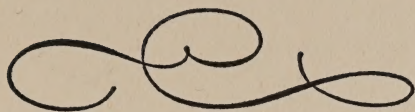
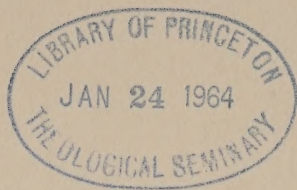
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**THE
BUSINESS
CONSCIENCE**



THE BUSINESS CONSCIENCE

LUTHER H. HODGES

PRENTICE-HALL, INC., *Englewood Cliffs, N. J.*

Mr. Hodges' royalties for this book are being assigned to the United Negro College Fund (USA) and to the Methodist Colleges of North Carolina.

THE BUSINESS CONSCIENCE, by Luther H. Hodges

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DEDICATION

This book is dedicated to my associates
in the United States Department of Commerce.

Preface

“And why beholdest thou the mote that is in thy brother’s eye, but perceivest not the beam that is in thine own eye?” (Luke 6.41) “Thou therefore which teachest another, teachest thou not thyself?” (Romans 2.21) These biblical challenges came to my mind when I was asked to write a book on the ethical and social responsibilities of businessmen.

Would not most anything I could say on business ethics inevitably cast me in the presumptuous role of lecturer on morals to my fellow businessmen?

Notwithstanding the affirmative reply which I gave, and still give, to this question, I was persuaded to go ahead with the project. The defense, or excuse, for my presumptuousness is that everywhere across our land we must take our exhortations to live more ethical, moral lives from less than perfect men. And it would be a sadder world indeed if these men were silent because they

• • PREFACE • •

were also human and possessed of the usual quota of human imperfections.

The idea of writing this book came from a panel discussion at Columbia University in December 1961 on the subject of the ethical and social responsibilities of businessmen. I was one of the three panel participants and I talked at that time about some of the things that I had experienced in my business and government careers that touched on matters of business morality. Afterward, the publisher asked me to expand on what I had said and put it into a book.

I hope the reader will understand that I do not think I have said the best word or the last word on business ethics.

I gratefully acknowledge advice and assistance from numerous persons, including several of my associates in the Department of Commerce, without whose aid the manuscript could not have been finished within the time limits requested by the publisher.

This volume is offered to the reader with the hope that it will be of some help, particularly to young businessmen who believe in our American system and to whom we must look for its improvement and preservation.

LUTHER H. HODGES

Washington, D. C.
December 14, 1962

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**THE
BUSINESS
CONSCIENCE**

Part One



**a call
for action**

1

THE CONFIDENCE- BREAKERS



Getting bilked out of more than a million dollars by your friends and trusted business associates is a sobering experience, at the very least. The best you can say is that the experience doesn't befall everyone. In that sense, you can feel a kinship with the man in the familiar Lincoln story who commented, while being ridden out of town on a rail: "If it wasn't for the honor, I'd just as soon walk."

In my case, the bilking was all the more disturbing because my own money wasn't involved. It was your money; it belonged to all the people of the United States.

I cannot be proud of my role in this incident, although I acted with a clear conscience. I relate it now because it is directly pertinent to the subject of business ethics. And it brought home to me a particular problem that faces any

man who would become a public servant: he must give special scrutiny to all requests for help from special interest groups, even when close friends are involved.

The episode I've mentioned occurred during my service in the federal government during World War II. After spending nearly a quarter century in the textile industry, I went to Washington in 1944 to offer my services in any capacity useful to the government. I had been a foot soldier in World War I but was too old for a uniform in the second one. Nonetheless, I was determined to make a personal contribution and asked—rather boldly, as I think of it now—for the toughest assignment available. My wish was granted quickly enough. I was sent to the Office of Price Administration with instructions to carry out the pricing program for the entire textile industry. In this, my first job with the federal government, I administered price controls on an annual business volume of about \$4,000,000,000. It wasn't the toughest job in Washington, but it was tough enough.

As head of OPA's Textile Pricing Division, I had a great many experiences that troubled me. It didn't take long to discover that even a great war had not banished selfishness and greed and their attendant ethical problems. And this particular incident was more disturbing than all the others. It has bothered me exceedingly through all the intervening years as I have pondered the relationships among businessmen, their employees, their customers and their government.

My first Washington assignment threw me into direct contact—and sometimes conflict—with many friends and

former associates in the textile industry. I had known many of these men for a long time and I sympathized with their problems. I had first-hand knowledge of the difficulties they faced.

As soon as I came on the job, my friends began bombarding me with complaints that they couldn't get services from Washington, couldn't get direct answers to simple inquiries, couldn't get the price relief that they argued was absolutely necessary for the preservation of their mills and the economic survival of their one-industry communities.

I'm inclined to be impatient myself and I wanted to see these matters handled efficiently and quickly. Realizing that paperwork often moves at a notorious crawl in the federal government, and needlessly so, I found much merit in the complaints that reached me.

The situation came to a head a few weeks after I joined OPA. A group of acquaintances from the textile industry, all prominently connected, came to my office with a horror story about the bad treatment they were receiving from the agency. They pointed out that their urgent request for price relief was being shuttled from post to pillar with no one taking the time to give them a fair hearing. They were being put off and put off, to the detriment of their stockholders and their workers.

I listened sympathetically to this account of frustrating inaction, then asked for the facts about their price situation. They supplied some information which seemed to back up their claim for relief. After that, I was definitely leaning in their direction but, before venturing any

promises, I looked from face to face, from eye to eye, and demanded: "Are you giving me the whole story; are you telling me the whole truth; can I count on the figures you've given me; and can I be assured that the relief you ask is fair to the government as well as to yourselves?" They stated without equivocation that their presentation and their facts were completely truthful and that I need have no fear on that account. "All right," I told them, "I'll put this thing through for you within forty-eight hours. I'll get you an answer and give you relief, because I want to see this thing move and I want to do the right thing." I also added: "You realize I'm here as a public servant with some knowledge of the textile industry, but I do not know your particular case in any detail; I must take your word for what you've said." Again I was assured that I had nothing to worry about.

Despite strong protests from my associates and superiors in OPA, I pushed the case through to a final, favorable decision. I was quite proud of my success at snipping through red tape. It did not cross my mind that, as a newly-installed public servant, I should have dealt with my old friends at arm's length; I should have made doubly certain that the information they presented was accurate.

Many years later, at a cocktail party, the leader of the delegation which had won my support took too many drinks and, turning to his group of prominent associates, said with great glee, "We certainly bilked old Luther out of more than a million dollars that day, didn't we, fellows?"

My friends had lied to me. They had taken advantage of my friendship and sympathy. They had ignored the overwhelming fact that we were fighting a desperate war and had thought only of their interests and not of the government and their fellow citizens. I've had little respect for this particular group since that time but I know they represent only a small part of the textile industry. Still, their machinations were deeply troubling. I could hardly believe that businessmen of 1944 would behave in a national crisis much like those referred to as the "robber barons" of the year of my birth—1898.

Because war with Spain seemed very near and the United States was ill prepared, Congress appropriated a staggering \$50,000,000 for national defense on the day I was born, March 9, 1898. Although the amount was vast for those days, the *New York Times* expressed an almost-universal view that the money would be spent wisely and with absolute integrity. The *Times* doubted there were half a dozen sane people cynical enough to believe that waste and corruption would follow. Only the most calloused could envision chicanery at a time of national peril.

Despite this patriotic optimism, there *were* calloused people in 1898—plenty of them—and they took full advantage of the national emergency. For many a businessman, the government's desperate need offered an irresistible opportunity to strike a sharp bargain. Ships and supplies of all kinds were delivered at inflated prices; especially ships, because the need for them was greatest.

Wartime profiteering did not trouble the consciences

of some magnates in that era. Padded profits were regarded as the just reward for developing the nation; for building the greatest industrial complex on earth. For such men, industrialization was a religion in itself—an end that excused almost any means. Andrew Carnegie wrote widely about his personal creed, arguing that “the man who makes two blades of grass grow where one grew before is a public benefactor.” Working from that thesis, the old Scotsman was able to rationalize all kinds of shoddy business tactics. And William H. Vanderbilt could say, “The public be damned—I am working for my stockholders.” Indeed, business morality had changed very little from the time of Vanderbilt’s father, the old Commodore, who once snorted, “What do I care about the law—ain’t I got the power?”

We can be thankful that the ethics of the business community have changed a great deal for the better since the year of my birth. Businessmen no longer boast that they have a power which exceeds the law. Nor do they crassly damn their customers or maintain patently illegal rail and steel combines. The change since 1898 has been so marked, in fact, that it would be easy to wallow in a sea of self-satisfaction with things as they stand. That, in itself, is a tempting danger. Complacency could lead us back down the road to 1898.

Whenever this euphoria beckons me, I reflect on my experiences during World War II. That’s a sure way to get my feet back on the ground.

Like the industrialists of McKinley’s day, the textile men who duped me in 1944 didn’t feel they were doing

anything dishonest. They were just playing the old game of "beating the government" and getting away with it. And they were having fun taking old Luther for a ride.

One reason they could feel comfortable about their deceit was the fact that other businessmen in other industries were doing the same sort of thing. Marshall Clinard has reported in *The Black Market* that two out of every three manufacturers and wholesalers investigated in 1944 were found guilty of violating OPA regulations. And no doubt these violations were carried out with what passed for a clear conscience—the offenders rationalizing that controls were hateful and inimicable to the American system and therefore something to be flouted. It made no difference that controls were necessary and fully supported by the great majority of the American people.

In 1944 alone, some 900,000 OPA violations of all kinds were brought before various agencies—a total approximately equal to "ordinary crimes" recorded by police in the same year. You can't look at these statistics and feel terribly superior to the "robber barons" of 1898.

I was shocked on more than one occasion, as most of us were, at the way some people behaved in the face of war-time scarcities—the shortages of sugar, gasoline, hotel rooms, train accommodations. Some of the things that were done, the bribes given, the deals engineered, the promises made, were frightening. Each helped to weaken the moral fibre of our nation, and we have seen the results since the war.

Before I took the wartime job in Washington, one of my department sales managers came to me smiling and an-

nounced very proudly that he had been able to get fifteen pounds of fresh butter through the black market. He was so puffed up, in fact, that he could let the boss have three pounds of it—the only time someone literally tried to butter me up. I rejected the offer and we had a little talk about the responsibilities of a good citizen. I hoped it would do some good but apparently it didn't. This man lasted with the company less than two years after the war. The kind of thinking and the kind of character that allowed him to traffic in black market butter for his family and friends carried over into his dealings with our customers.

If the crusading fervor of wartime failed to quell the spirit of '98, peace has done no better. In my memory, there never was a case so deeply disturbing as the peacetime price-fixing conspiracy in the electrical machinery industry.

Actually, according to *Fortune* magazine, the roots of the plot can be traced to the war. Just like people I knew in the textile industry, the electrical machinery people played "beat the government" during OPA days. *Fortune* has reported they used to meet regularly to plan concerted campaigns aimed at getting federal approval for higher prices. And once OPA was dismantled, they continued their meetings so they could fix prices among themselves. There were no guilt feelings, either, as were reflected in this statement by a General Electric man to *Fortune*:

"Sure, collusion was illegal, but it wasn't *unethical*. It wasn't any more unethical than if the companies had a

summit conference the way Russia and the West meet. Those competitor meetings were just attended by a group of distressed individuals who wanted to know where they were going.”

The Department of Justice, alerted by identical bids on TVA contracts, began unraveling the conspiracy late in 1959. The case went before Chief Judge J. Cullen Ganey of the U.S. District Court in Philadelphia early in 1961. There was no trial; the defendants admitted their guilt.

For as long as eight years, according to the formal charges, these men had conspired to fix prices, rig bids and divide markets on electrical equipment worth \$1,750,000,000 a year. To do this, they had created a series of cartels—a device as alien to the spirit of American enterprise as state socialism.

Before passing sentence, Judge Ganey took pains to put the case in perspective: “This is a shocking indictment of a vast section of our economy, for what is really at stake here is the survival of the kind of economy under which this country has grown great . . .”

Scornfully, the Judge pointed out that the defendant corporations and their executives had “flagrantly mocked the image of that economic system of free enterprise which we profess to the country and destroyed the model which we offer today as a free world alternative to state control and eventual dictatorship.”

Judge Ganey was not chastising fringe operators or fly-by-nighters. Before him stood forty-five responsible businessmen. In their ranks were church deacons and

vestrymen, hospital board members, Chamber of Commerce presidents, Little League organizers and bank directors. These men represented twenty-nine corporations including the giants of the industry, G.E. and Westinghouse, and other familiar names: Allen-Bradley, Allis-Chalmers, Clark Controller, Cutler-Hammer, Federal Pacific Electric, Foster Wheeler, I-T-E Circuit Breaker, McGraw-Edison, Sangamo Electric, Square D, Worthington, and others.

The Judge sent seven executives to jail for thirty days each. Twenty-three others were given suspended sentences and placed on probation for five years. The forty-five men and their corporate employers were fined \$1,924,500. It was the biggest criminal case in the long history of the Sherman Act.

The defendant corporations could not be jailed, obviously, and their highest ranking officials, in most instances, had not been named in the federal indictments. But that did not free the corporations and top management from Judge Ganey's censure.

"This Court . . . is not at all unmindful," he announced, "that the real blame is to be laid at the doorstep of the corporate defendants and those who guide and direct their policy . . . for one would be most naive indeed to believe that these violations of the law . . . involving so many millions upon millions of dollars, were facts unknown to those responsible for the conduct of the corporation . . ."

Mark W. Cresap Jr., president of Westinghouse, accepted the Judge's thesis. "I don't take the position that

I can wash my hands of it," he commented. "My viewpoint is that this is a management failure." Ralph J. Cordiner, the board chairman of General Electric and author of a strongly-worded company policy demanding strict obedience to antitrust laws, did not similarly express himself on the question of top management's responsibility.

The case was a shocker. All over America, people in and out of business were talking about the price-fixing conspiracy. We had come to expect so much from business in recent decades that it was almost with disbelief that some of us received news of the jail sentences and massive fines. Personally, I was stunned by the fact that the cream of this segment of our business community merited such treatment, which they obviously did. It was terribly distressing to realize that the leadership of corporations so prominent had failed so miserably in their responsibility to the nation and in their own ethical responsibilities.

Many Americans felt as I did, I am sure, and quite a number expressed their feelings with more eloquence. In this connection, I recall particularly a speech made in Minneapolis by Mr. Henry Ford II, who happened to be a director of one of the electrical machinery companies. Said Mr. Ford:

"There is really only one thing for top executives to do at such a time as this. That is to forget the alibis and the explanations and have the fortitude—the plain guts—to stand up and say: 'This is our failure. We are chagrined and sorry. It will not happen again.'"

As Secretary of Commerce, I had two reasons for immediate concern:

First, I had been in office less than a month and had entertained the hope that the Department of Commerce, under my direction, would not only serve business in a material way but might help provide leadership as well. I wanted the Department to assume this broader role so we could actively fight the propaganda attacks directed at American business from the Kremlin and similar quarters. And I felt we should do all in our power to make the morality of U.S. business a bright example for people in the newly-independent countries, where Communist propaganda can easily take root, and for the emerging executives in our schools. Three weeks on the job and I was fearful that business, instead of impressing the rest of the world, might be in danger of surrendering its good name at home. Certainly, I thought, it wouldn't take many electrical machinery cases to start the toboggan slide.

Second, the board chairman of General Electric was chairman of the Business Advisory Council—a group of about 100 prominent executives banded together many years before to advise the Secretary of Commerce. I was already having some difficulties with this group, which didn't take eagerly to my suggestions that it accept representatives of small business and open up to the press all its meetings involving participation by federal officials. I was reluctant to add to the existing friction by demanding that the G.E. executive relinquish the chairmanship, although I certainly thought that he should. Meanwhile,

reporters and others were demanding to know how I would handle the situation. To all these inquiries, I replied, "He will have to make his own decision." After several weeks of soul searching, Mr. Cordinier did resign, but with great hesitancy because he thought his action might be interpreted as an admission of guilt. He was a realistic and practical man whose first thought apparently was for where he and his company would come out best.

The price-fixing case was a hard blow to all businessmen and most reacted with indignation and shock. However, a few people in and out of business greeted the disclosures with seeming unconcern, or even jumped to the defense of the conspirators. When a handful of critics turned up a few weeks later at the annual meeting of General Electric stockholders, their comments were greeted with cries of "shut up" and "throw him out." A prominent Manhattan lawyer, Benjamin Javits, was quoted by the *Washington Post* as telling his fellow shareholders that the defendants from G.E. "violated the letter of the law, but did not violate the main spirit of free enterprise—a fair return on a dollar invested."

I had a personal encounter with this type of thinking, which continues to baffle me, shortly after Judge Ganey passed sentence. I was visiting in New York with a very close friend, a doctor and former neighbor. The conversation turned to the price-fixing case and I expressed the opinion, with some feeling, I think, that we had come to a pretty, pretty pass when companies of such repute would be guilty of collusion with competitors. My friend made no comment whatever on the moral implications of

the case. Instead, he said to me, "Luther, what do you think of my buying some General Electric? Public criticism of their price-fixing has pushed the stock down to where I think I could make some money." I have never answered my friend's question but I have done a lot of thinking about it. And I simply can't understand how this friend—belonging to a profession that presumably maintains one of the most exacting ethical codes ever established—could ignore the overriding ethical questions involved in the case, could have no apparent feeling for the impact on the business community, the public and especially the young people—and think only of possible personal gain.

I would not be half so concerned, of course, had the electrical machinery conspiracy been the only recent instance in which businessmen had been guilty of unconscionable practices. As Henry Ford II put it:

"I am concerned . . . at a recent chain of events that could arouse broad popular distrust and that could revive old and worn-out hostilities toward American business and industry. Too fast and too close together for comfort we have had a series of falls from grace involving some of our oldest and most respected business firms."

For example, the president of the Chrysler Corporation was found to own stock in several companies which were regular Chrysler suppliers; his presidency did not long survive the discovery of these conflicts of interest. And a special Senate committee disclosed how certain corrupt businessmen had conspired with equally dissolute labor leaders to make "sweetheart" agreements

that sold the rights of employees down the river; collective bargaining in these cases was a sorry joke.

Then, too, no one could overlook the enforced departure from Washington of Mr. Sherman Adams, who showed incredibly bad judgment in accepting costly favors from a millionaire businessman whose troubles with the federal government were numerous. Worse yet, Mr. Adams provided favors of his own for this man Goldfine: he made telephone calls from the White House on two occasions to inquire about the status of cases pending against Goldfine at the SEC and the FTC.

When Mr. Adams was called before a Congressional committee to explain himself, he took the offensive: "Is there any member of this committee who has not made a phone call for a constituent?" He conveniently ignored the fact that there is a world of difference between a phone call from a Congressman, who is supposed to serve his constituents in a normal way, and a phone call from the White House by a man who was said to have a compromising relationship with his "constituent."

The Sherman Adams case pointed up the most worrisome aspect of all instances in which improper conduct becomes a public scandal. Inevitably, each disclosure leads to a weakening of public confidence in whatever segment of society is directly involved. And, more important, we are presented with a bad example that will lead some people to conclude that lax morality is a way of life in high circles. If such thinking gains currency, individuals may lower their own standards without even realizing it,

because they feel this is the way the world moves for successful people.

I don't suppose anyone in the country was unaware of the fact that Sherman Adams was *the* Assistant to the President of the United States. We knew, too, that Mr. Adams had a reputation for incorruptibility and exacting ethical standards. And it was quite apparent that in many spheres, his was the hand that often guided President Eisenhower in decisions involving choices between right and wrong.

Now, Mr. Adams evidently was a basically good person and he certainly was quite efficient. But he did a wrong thing. And because he was a decision-maker at the very heart of our government, his moral lapse exerted a tremendous influence on many millions of Americans. If a man of Mr. Adams' reputed integrity and high position could do such a thing, there seemed ample justification for wondering what lesser men might be up to. Right there you have the seeds for the kind of cynicism that could be fatal for our society.

President Eisenhower told a news conference that Mr. Adams might have been "imprudent." But he added that "I respect him because of his personal and official integrity. I need him."

I was not alone in thinking that moral progress suffered a major setback when Mr. Eisenhower hemmed and hawed so long before ridding himself of Mr. Adams.

May I hasten to say that unethical or improper conduct is not limited to a single political party. Misconduct is not partisan—it is personal.

The public got another rude shock with the exposure of the television quiz show scandals of 1959. The TV quiz, you will recall, was an odd folk ritual in which lady lawyers, jockeys, sons of prime ministers, and file clerks were escorted into "isolation booths" to fritter away precious prime network time in silence before producing, after much sweating and grimacing, impressive answers to impossible questions. These ordeals became the most popular fare on television and it seemed to many businessmen that they were virtually indispensable to the sale of pills, hair curlers, cigarettes and what not.

Then came the terrible discovery that, even though questions and answers supposedly had been sequestered in stout bank vaults, under the personal guard of a seventh vice president, the game was a shoddy fake. All the grimacing and sweating was window dressing, carefully rehearsed under the professional eyes of dramatic coaches. Contestants had memorized their answers in advance.

This sorry business scandal reached a climax on November 2, 1959 when Charles Van Doren, an English instructor from Columbia University, appeared before a Congressional subcommittee. Van Doren, member of a prominent literary family, had become a popular idol by winning \$129,000 on an N.B.C. show called *Twenty-One*. Millions regarded the video performances of this clean-cut young man as convincing proof of the fruits of scholarship. *Time* magazine put him on a cover, proclaiming that he had done a great deal to revive public interest in the intellectual life. There was a genuine national let-down when Van Doren admitted to Congress that he had

been a party to the big fix. And rightly so, for the zeal of salesmanship had run riot in this case, snapping another important strand in the moral fabric of the country. I shall not soon forget a conversation I had along these lines with the wife of a European diplomat in Washington.

This woman had been an avid fan of the TV "contests" and had used them as object lessons for her young son and daughter. She recalled exhorting her children to look at the lady who was so smart as to answer every question put to her by the panel, and at Mr. Van Doren who seemed such a nice and wonderful person. "Look at these people, these great Americans," she told her children, "and see how smart they are and how they are richly rewarded for their knowledge; I want you to emulate them and do the same thing." This earnest woman said to me, with a break in her voice, "How sad I was later when I found that these people were misleading not only the American public but misleading all the rest of us who look to America for leadership of the highest sort in every field of endeavor."

It would be dangerous indeed for us to feel complacent about our moral standards while businessmen violate the antitrust laws, conspire with union officials, offer bribes to men prominent in government, and deceive millions of television viewers in the name of salesmanship.

Generally speaking, our moral standards in the United States *are* high. I don't think they can be bettered anywhere in the world. But the minute we become smug about this, especially when faced with evidence that there

still is plenty of room for improvement, we are lost; we are heading back to 1898.

Jack I. Straus made much the same point a few years ago in reporting that his New York department store, R. H. Macy & Company, received complaints from only seventy-five customers for every 10,000 transactions. That was an excellent record but Straus saw no cause for self-satisfaction:

“Those seventy-five aren’t seventy-five at all—they are seventy-five multiplied by all the people to whom they talk. Unless we are sensitive and vigilant the seventy-five can become a hundred and the hundred a thousand. That is where good will disappears and businesses, in time, disappear with it.”

2

MEETING THE PROBLEM



Introducing the President of the United States is always a thrill, before any audience. I've had this pleasure a number of times but seldom has the assignment given me more personal satisfaction than when I presented President Kennedy to the Business Ethics Advisory Council of the Department of Commerce early in 1962.

The Council was a direct outgrowth of the electrical machinery price-fixing case. The day after Judge Ganey passed sentence, the President was asked at a news conference if some new move to draft a code of ethics for business might be helpful in view of what had happened.

"I think it would be very beneficial," the President replied, "if business groups today would consider what they could do to protect themselves from charges of con-

flicts of interest of the kind we have recently seen and also of the effort made by these large electrical companies . . . I must say I would be interested to watch what progress they [the members of the business community] can make in that area.”

I discussed the subject later that day with my associates in the Department of Commerce. We agreed that our Department might be able to act as a catalyst in promoting serious thought and practical action in the area of business morality. Our idea was to call together representatives of business, education and the clergy and give them a free hand to seek the best means of fostering higher ethical standards in the business world. We regarded this as a most necessary undertaking, particularly in the light of the blow that had just been dealt all of business.

We put our thoughts in a memo until I had an opportunity to take up the question with the President. He gave the idea his enthusiastic support.

Going ahead, we scheduled the first Council meeting for May 17, 1961, even before we knew if we could recruit the twenty-five members we wanted. I sent out invitations announcing “the first in a series of seminars through which we hope to explore some approaches to the development of ethical guidelines that might be useful to management.” My letter continued:

“There has been a great deal of discussion recently about the state of business ethics and the need for some very careful thought to help establish an approach to the problem. Here at the Department of Commerce we feel

an obligation to assist in this effort. It is important that we also state that this is not in any way a critical approach that we seek—but rather a constructive one.”

Only two men turned us down, although some others hesitated—apparently fearful that the Council might develop into a business-baiting operation. I’m sure that, among the members at least, any such notion was thoroughly scotched by the time the Council completed the first round of its work in January 1962.

By January 16, the Council had virtually completed *A Statement on Business Ethics and a Call for Action*.^{*} It was a brief document, but it raised a series of questions for businessmen concerning major ethical problems. The questions were specifically designed to inspire many, many hours of constructive thought, debate and self-analysis. It was a good beginning.

The Council met with some of us for breakfast that morning, then went to the White House to put the finishing touches on the statement before presenting it to President Kennedy. The group convened in what is called the Fish Room, a conference room just a few steps from the President’s office.

The President was scheduled to join us at noon, presumably to say hello and give the Council a quick “thank you” for its work. At 11 o’clock, I excused myself and went in to see the President, to explain briefly the work of the Council and to hand him a short statement which I thought he might want to read to the group.

^{*} The complete text of this document is printed as an appendix to this book.

The President looked at the suggested statement quickly, picked up a pencil and started scratching on it: "Governor, I think we ought to say this, we ought to say that."

"All right, Mr. President," I replied, "change it any way you want to, and we look forward to seeing you at the meeting."

"Let's go now, Governor," he said.

I was taken aback: "They're not expecting you until 12 o'clock, Mr. President."

"Let's go now," he said. "I'll be tied up a little later with Mrs. Kennedy, checking on the television show she's going to do about the White House."

I said, "Yes sir, Mr. President," and escorted him to the meeting room, where I said as I opened the door, "Gentlemen, the President of the United States."

Still grasping the paper I had given him, which by this time was well marked, he thanked the Council members for their hard work and urged still further effort. Here is the full formal statement, which reflected the views of the President in the area of promoting higher business ethics:

I have reviewed with Secretary Hodges the report and progress you have made in the development of a program to stimulate and assist business leaders and trade association groups in attaining high ethical standards, and I am delighted.

But your statement of principles can only be a beginning. In the last analysis, high ethical standards can be achieved only through voluntary effort. The

principles you have outlined will establish guideposts, give direction and help to whole industries and companies to initiate codes and standards.

I am confident that American business will respond, but in addition to helping businessmen, your work should assist the general public to achieve a broader understanding of these problems—for ethics is a matter of concern to us all.

The free world watches us closely for leadership in this field, the uncommitted nations seek examples of the free enterprise system in operation, and the Communist nations are looking for vulnerable points of attack. I know that you will bear all this in mind.

It is good to know that this group of distinguished business leaders, educators and clergymen has undertaken this important task. I am looking forward to seeing continued reports of progress by this Council.

Nodding to the Council members, the President said, "Have a seat, gentlemen," and proceeded to take one himself next to the chairman of the group, William C. Decker, board chairman of the Corning Glass Works.

Then the real surprise began. I thought I had told the President all he would probably want to know about the Business Ethics Advisory Council. I was as pleased as anyone when he sat there for thirty minutes asking probing questions about the work accomplished, the Council's plans for the future, the precise meaning of various sections of its *Call for Action*.

It was an extraordinary half hour for all of us. We had

expected the President to be rather hurried; he had meetings of import during the day and had precious little time for any of them. The fact that he stayed with us, and dug right into the work at hand, made us realize not only that the President was alert to what was going on, but shared very deeply our interest in the most important subject on which the Ethics Council had been working.

This was very different from the atmosphere I found at another meeting, just two months later, with the Business Council.

The Business Council is a group of outstanding business and industry leaders. The BC, as it is known, draws the active participation of top management representatives from virtually all of the largest corporations. Its roster is studded with names familiar to almost all Americans. Formerly known as the Business Advisory Council, the group had been affiliated with the Department of Commerce for nearly three decades, until 1961. At that time it cut its direct ties with Commerce and offered its services, which had always been chiefly of an advisory nature, to the Executive Branch as a whole. One of its first assignments under an expanded charter was to help recruit personnel for the foreign aid and other agencies that needed experienced administrators. In these efforts, I understood, the BC had been helpful to the Administration.

Mr. Decker and I felt it would be useful to appear together before such an organization to solicit help in implementing the ideas developed by our Business Ethics Advisory Council. We also wanted to urge these top

businessmen to consider establishing ethical codes in their own companies and industries and to urge their associates and competitors to do the same. All of this was in line with the President's feelings, which we shared, that the *Call for Action* prepared by the Ethics Council had marked only a beginning.

I took a few minutes to trace the background of the Ethics Council and complimented Roger Blough, chairman of the Business Council, for personally helping us work out certain sections of the *Call for Action*.

Mr. Decker then went to the podium and explained the nature and purpose of the *Call for Action*. And to point up the need for increased efforts among businessmen to raise moral standards, he cited a recent study based on a questionnaire which was distributed by the *Harvard Business Review* to 5,000 executives and supervisors. The results of the study hardly indicated there was room for complacency.

Well, the effect of Mr. Decker's presentation to the Business Council was almost nil as far as one could tell. Two or three people spoke out against making public the work of the Ethics Council and ridiculed the Harvard study. One industrialist argued very forcefully that it was bad to issue a statement like the *Call for Action* because, he contended, it makes the public feel that all business is unethical.

Not a solitary soul stood up to support the proposed program or to endorse our view that the business community should get actively interested in this problem. I couldn't help but think about the President's remark at

our meeting two months earlier: "I am confident that American business will respond."

After one BC member had attacked the work of the Ethics Council, I took the floor and asked him and the others point-blank:

"Why do you think that we in Commerce had this report made, and why do you think that twenty-five prominent men such as Mr. Decker and other dedicated citizens—from the clergy, from educational institutions and from the business world—spent hundreds of hours studying these difficult, fundamental problems?"

Answering my own question, I said: "We did it to inspire confidence in the business community and to point out that the small minority who are unethical are hurting all of business." I also expressed my firm conviction that to gloss over the misdeeds of the small minority and pretend nothing was wrong would spell ultimate trouble.

Perhaps it was the wrong day or the wrong audience. For whatever reason, our *Call for Action* got a very chilly reception from a blue ribbon panel of business leaders.

I was told later by one BC member that the group's interest was centered on something else that day—probably on the President's trade expansion program or the tax bill then pending in Congress.

I can only judge by what I saw and heard, or failed to hear.

Of course, some people claim it is bad for business to call attention to even the most flagrant ethical breakdowns. They argue that you should avoid all public discussion of price-fixing, rigged quiz shows and similar

evils. They believe that the less said, the sooner the public will forget about such situations.

It must take a particularly narrow mentality to believe you can sweep under the rug a situation already exposed to public view. It can't be done. If you try it, you simply inspire suspicion that more of the same is being covered up. What's more, it would be the limit of folly to ignore things that inevitably influence public attitudes toward business in general. When the sins of a fellow businessman threaten to weaken public confidence in the ethics of all businessmen, it behooves all of us to face the problem head-on. As I told the Business Council, we must take positive action to see to it that the misdeeds of a minority do not undermine the public's faith in American business, or blacken the image of our private enterprise system throughout the world.

Every instance of business wrongdoing that reaches our attention should jog us into increasing our own efforts to make certain that our personal business affairs are conducted with a maximum of probity and honor. And it makes no sense to take such action in secret. It should be done out in the open—so the world will know the American businessman is determined to do the right thing.

Because business sometimes has been made a whipping boy when serious trouble has afflicted the economy, a great many business leaders are terribly thin-skinned about any publicity that might be harmful to their calling. If the newspapers headline an electrical industry price-fixing case, some are ready to detect a plot against business. That is absurd. Moral lapses are not confined to the

business community—and neither are the headlines. The press gives equal prominence to misdeeds of labor, cheating by college students, bribe-taking by young athletes, venality in public office, and thievery by city policemen.

A lot of honest policemen have been embarrassed and hurt by the exposure of recent scandals in the police departments of some major cities. Yet no one is proclaiming a plot against law enforcement or agitating for a cover-up. Taxpayers, in fact, don't want to see the problem swept under the handiest rug. They want the situation dealt with—and all policemen will be better off, along with the rest of us, once the evil minority has been dealt with properly.

I want to emphasize that to deal properly with immorality, we must deal firmly and fairly. I thoroughly believe in the deterrent power of stern punishment. To simply administer a slap on the wrist is almost worse than doing nothing; it makes a mockery of justice.

In this connection, I've become concerned about the soft attitude many Americans take toward crime and punishment. It has become almost disgraceful to impose the maximum penalty for any kind of crime, even murder.

Errant businessmen, I might add, deserve no exemption from stern punishment. If a businessman bilks a competitor of a million dollars, however sophisticated the method used, he should certainly be punished at least as severely as the common criminal who uses his hands to take twenty dollars from the till of a neighborhood drug store. Yet that criminal often goes to prison while the business-

man pays a modest fine or is handed a cease-and-desist order.

Unquestionably, one reason the electrical industry scandal had such an impact was the fact that the defendants were treated as criminals by the Court; some were handcuffed and sent to jail. Even so, the stiffest sentence was thirty days in jail—hardly an extreme punishment for men whose conspiracy robbed customers of many millions of dollars.

Of course, there are a variety of sound legal distinctions that tend to put the lawbreaking businessman in a category separate from the common criminal. Many laws applying to business call for civil rather than criminal proceedings. This is so because their chief aim is the quick correction of business abuses, in order to protect the public; punishment is secondary.

No one can argue against a law that empowers enforcement agencies like the Federal Trade Commission and the Securities and Exchange Commission to seek a prompt halt to illegal business practices. At the same time, I think we would all benefit, too, if more adequate provision were made for imposing meaningful punishment on the guilty parties. There must be an effective deterrent, or the small minority of crooked operators who call themselves businessmen will think the law is a joke—and act accordingly.

Just as I believe in strong deterrents to illegal conduct, I am firmly convinced of the prophylactic benefits of exposing wrongdoing—much as it may temporarily embarrass and even injure the segment of society directly

involved. The end result, almost without exception, is progress. I think the stock market is a good example.

When Ferdinand Pecora and the Senate Banking Committee turned the spotlight of publicity on the shortcomings of the securities industry after the 1929 market crash, the industry hollered that it was being made a scapegoat for the Depression. And the hollering became even more strident when Franklin D. Roosevelt and the Congress imposed federal regulation on the industry, in order to curb glaring abuses.

I doubt that you could find anyone today who would claim the result was anything but helpful. Without those New Deal reforms, seventeen million Americans would have lacked the confidence to invest their savings in stocks during the record bull market that followed World War II. And if these millions had not bought stocks, our private enterprise system would have been strapped for the equity capital needed to finance economic expansion.

In the early 1960's, the stock market was again made the subject of close federal scrutiny. The Securities and Exchange Commission turned up substantial evidence that some market operators had reverted to corner-cutting and unethical practices, tempted by the vast sums changing hands in the bull market. Few in Wall Street were very happy about the inquiry but, this time, government investigators at least were greeted with offers of cooperation rather than cries of anguish. The industry knew from experience that the way to solve a problem is to meet it.

I think it's worth adding that the market problems

which attracted wide attention in the early 1960's did not spring up overnight. They had been abuilding for years, while people who might have done something about it were lulled by complacency; these people thought the New Deal reforms had been a cure-all and they didn't appreciate the absolute necessity of continuing vigilance.

It's chilling to think about the number of times that much-needed reforms have been thrown out the window because of unwarranted self-satisfaction. This has been a recurrent theme in the history of many municipal governments.

Look magazine sponsors a very interesting and helpful annual competition in which the cities and towns of the country vie for designation as one of the eleven All-America cities of the year. I have been intimately acquainted with several of these communities, and with the things they did to earn the honor.

In one small city in the Northwest, a dedicated young mayor and city council achieved extraordinary results, giving their community a new image and enlisting volunteer help in laying out sewer lines, planning streets, improving schools and doing all the tough and tedious things that must be done if a city is to have integrity and growth. *Look* honored these achievements. But just twenty-four hours before the award was announced, the voters of the All-America City turned out for a municipal election and threw out their good councilmen, threw away their achievements, and took a step backward. The people who had done so much for the community rested

on their laurels and failed to vote. The opposition, facing an uphill fight, did not share their complacency.

Here was another example of the failure of individual responsibility—the surrender to the easy philosophy of “let George do it.” Here was a reminder that every man’s effort is needed, at the polls, in policing business ethics, and in all other good causes.

Another illustrative incident happened in my own state of North Carolina. A municipal election that brought out more than eight thousand voters was decided by a single vote. The slate which had the strongest support from businessmen and professional people lost. The election was held in the summer when these people had a chance to go to their beach cottages or play golf or take a trip. Many prominent citizens failed to carry out their simple but important responsibility of voting. They asked, “What difference does my one vote make?” They found out.

3

THE GRAY AREA



People who have had no experience in business must wonder sometimes why it isn't a simple matter to conduct all business dealings in accordance with the highest ethical standards. Surely, you don't have to be a saint to decide whether a given course of action is right or wrong. The difference between the proper and the improper should be clear enough.

In actuality, the proposition isn't that simple. Almost daily, the businessman faces decisions which involve ethical questions that are not easily resolved. In many instances, the business executive must walk a moral tight-rope, trying to balance fairly the sometimes-conflicting interests of employees and stockholders, customers and suppliers. Or he may find himself in an area where ethical standards are vague and the law ambiguous. This is an

aspect of business life that is rarely seen by those on the outside.

The public thinks in terms of flagrant abuses of ethical conduct—the headline-making incidents in which questions of right and wrong are indeed clearcut, or should be. These cases *are* worrisome because they present the most direct threat to confidence in the integrity of our business community. At the same time, they are unusual cases that have little relation to the ethical problems that confront the great majority of businessmen in their day to day activities.

I think this fact is clear enough from the shock and indignation registered by the public when flagrantly immoral conduct among businessmen is exposed. The mass reaction is convincing evidence that, when such cases come to light, they stand out boldly. Were they an everyday occurrence, they would shock no one.

It is worth noting, too, that many of the cases which inspire public indignation today would have gone unnoticed a few decades ago. A good example of what I mean can be found in the attention given to the conflict of interests case that involved the former president of the Chrysler Corporation. Stockholders were as angry about this situation as the general public, and the man lost his job forthwith. Yet forty or fifty years ago, conflicting interests were a way of life in business. A great number of the most important people in commerce and industry were involved in what would today be roundly condemned as conflicting interests. But the public wasn't indignant then. It was more concerned about the harsh

treatment of workers, the existence of unconscionable monopolies, the merchandising of products harmful to the public health and other evils which have since greatly diminished.

The plain fact is that the public expects more of today's businessmen—and it receives more from them.

Of much greater basic concern than unusual instances of blatant wrongdoing are the ethical questions of more modest scope which face the great bulk of American businessmen who want to do the proper thing, but don't always succeed simply because the decisions they face are so complex in our competitive society.

If questions of business ethics could always be viewed in terms of black and white, there would be no need to write books, hold seminars or conduct university classes about moral issues. Faced with a black and white situation, anyone could judge the proper course by instinct.

Unfortunately, most ethical questions in the business arena fall into a gray area where judgments are difficult and where there is a strong temptation to resolve every doubt in favor of the most profitable course, or the course that will least "rock the boat." I'd like to give a couple of illustrations, because they will put the subject in concrete terms.

Just before the outbreak of World War II, I was general manager, in charge of both production and sales, of the twenty-nine Marshall Field & Company textile mills in the United States and abroad. The main business of Marshall Field was, of course, retailing. The firm had,

and has, a tremendously successful department store in Chicago.

During the war many items were rationed and we had to allocate limited quantities of the product of our rug mill to several hundred customers. These customers had been dealing with us for many years.

The president of Marshall Field & Company, my employer, called me into his office in Chicago one day and announced that the company's retail store there could take the entire output of the rug mill. He told me that the company could make a great deal of money in this fashion, because the rugs would be sold at retail rather than wholesale prices. He asked what I thought about the proposition.

It would have been easy to go along with the idea. No one could accuse me of rocking the boat. And I wouldn't be violating any law.

"Mr. President," I said, actually calling him by his first name, "I don't think it would be right to let the store have all the rugs. Other customers are counting on us and they've been doing business with us for a long time. If you should feel strongly that the rug department should have all our output, then I suggest that the store execute a contract specifying that it will take the entire production, which is several million dollars a year, not only while the war is on but for ten years after the war. I think that would be something we could discuss."

My employer smiled and the subject was closed.

The second illustration is more personal, involving my

family. But it is not unique in any way. It represents a problem that confronts a great many businessmen.

After graduation from the University of North Carolina, I was offered a job as Y.M.C.A. secretary at a southern college. The job paid \$3,000 a year—mighty good money in 1919. But I turned down the opportunity in order to return to my home town of Leaksville, North Carolina, and go to work in the local mill for \$1,000 a year. My decision was based partly on selfish considerations, because I thought a business career would be more profitable in the long run, and partly on a personal basis, because I wanted to see if I could make good in the community where I had grown up as a poor boy.

I began to get into management after several years on the job and first was appointed manager of a single mill, then of several mills, and finally of all the Field operations in the textile business. As general manager, some four thousand employees were under my general direction.

Seven of my eight brothers and sisters lived with their families in the communities near the Leaksville mills, all within a four-mile radius. The eighth lived a hundred miles away.

About the only place where any of my family or their children could find work was in one of the mills operating under my direction. I was connected with these mills in one capacity or another for more than thirty years. In that entire time, I made it a point never to have a single member of my family into my office to discuss a job and never to intercede for any of them. I never placed one on

the payroll nor did I interfere when one was hired, fired, transferred or refused employment by the personnel office.

Many people, including members of my family, criticized me rather severely for being "tough." I believe my policy was the correct one, however, and had a good influence on my relations with the several thousand employees of the mills.

In both instances I have cited, I was operating in the gray area. In either case, I could have taken the position that would have been most profitable for myself and for members of my family—and I could have argued that my actions were legal and proper. But in my heart, I wouldn't have felt right.

It is a matter of record that the average business executive does bring his conscience to the office. But his conscience is often troubled, by doubts about his own actions or those of his associates.

A very illuminating portrait of the present day executive was drawn in 1961 by the Reverend Raymond C. Baumhart, a Jesuit priest who conducted a detailed study for the *Harvard Business Review*, using questionnaires and depth interviews. It was this study that drew ridicule at the meeting of the Business Council which I attended with Mr. Decker of Corning Glass.

Some 1,700 graduates of the Harvard Business School responded to Father Baumhart's questionnaire. Forty-five per cent represented top management and twenty-seven per cent were classified as upper middle management.

These were the highlights of the study, as reported by Father Baumhart:

—Executives are alert to the social responsibilities of business as these are expressed in general terms. They see the corporation as a human society, a microcosm of the larger society in which it functions.

—As for specific business practices, executives often disagree about what is the ethical thing to do.

—Though our respondents profess a lofty level of ethical aspirations for themselves, they reveal a lower opinion of the practices of the “average” businessman.

—Executives say that the man most likely to act ethically is the one with a well-defined personal code. If he also has a boss who is highly ethical, his behavior will be consistently upright. But watch out, say executives, for there are many pressures for unethical conduct.

—Executives admit and point out the presence of numerous generally accepted practices in their industry which they consider unethical. Our respondents cite many daily problems in which the “economic” solution conflicts with the “ethical” solution.

—If unethical practices are to be reduced, executives say that top management must lead the way. The men at the top must be individuals of principle, who unmistakably reveal their attitude, not verbally, but also by forceful actions.

—As a help in correcting unethical practices, most executives would welcome a written code of ethics for their industry. But this code must have “teeth,” be capable of enforcement, and embody specific guides for conduct if it is to do the job.

—Most executives believe that organized religion and clergymen have been lax in providing guidance for the ethical problems of business. At the same time, the welcome which businessmen give to clerical advice is directly proportional to the amount of knowledge that the individual clergyman has about business.

Participants in the Harvard study were asked to take a position on a philosophical statement mirroring an attitude that was commonplace at the turn of the century:

“... the businessman exists for only one purpose, to create and deliver value satisfactions at a profit to himself . . . The cultural, spiritual, social and moral consequences of his actions are none of his occupational concern.”

This philosophy was rejected by ninety-four per cent of those who responded. Father Baumhart termed the reaction “convincing.”

An even more solid majority—ninety-nine out of a hundred—subscribed to the belief that “sound ethics is good business in the long run.” Yet a troublesome twenty out of a hundred disagreed with the following state-

ment: "For corporation executives to act in the interest of shareholders alone, and not also in the interest of employees and consumers, is unethical." And fifteen out of a hundred thought that "whatever is good business is good ethics." As Father Baumhart noted with concern, "This is the same as saying that if a thing makes money, it is good." To me, that's a throwback to the days of Cotton Mather, who thought the rich man must be ethical; otherwise God wouldn't have favored him with earthly wealth.

The Harvard study turned up considerably more cynicism about business ethics than seems healthy. For example, nearly half the panel accepted this statement: "The American business executive tends to ignore the great ethical laws as they apply immediately to his work. He is preoccupied chiefly with gain."

This same cynical attitude was revealed in yet another fashion. Father Baumhart asked half the panel what they would do in specific situations. The others were asked what they believe the "average" executive would do in the same situation. Here's one of these situations, and the response:

Imagine that you are a member of the board of directors of a large corporation. At a board meeting you learn of an impending merger with a smaller company which has had an unprofitable year, and whose stock is presently selling at a price so low that you are certain it will rise when news of the merger becomes public knowledge.

	<i>What I Would Do</i>	<i>What Others Would Do</i>
Buy some for self?	42%	61%
Tell a good friend?	14%	46%
Tell broker?	2%	11%
Do nothing?	56%	29%

Contrast the response to the hypothetical situation with what the law, as interpreted in a recent decision of the Securities and Exchange Commission, has to say: if a corporation "insider" has secret information which would affect the market value of a stock, he must avoid all transactions in the stock or disclose the information to those with whom he deals. In other words, if he wants to buy the stock cheap, he must disclose his inside knowledge to the seller—who might then have second thoughts about selling. Yet nearly half the panel reported they would buy the stock—presumably without making the required disclosure. And probably many of them would never realize that, in this instance, they would be violating the SEC ruling.

Here is another problem decision presented to Father Baumhart's panel:

Imagine that you are the president of a company in a highly competitive industry. You learn that a competitor has made an important scientific discovery which will give him an advantage that will substantially reduce, but not eliminate, the profits of your company for about a year. If there were some

hope of hiring one of the competitor's employees who knew the details of the discovery, would you try to hire him?

	<i>What I Would Do</i>	<i>What Others Would Do</i>
Probably hire him	48%	70%
Probably not hire him	52%	30%

A third situation involved expense account padding—a not uncommon business practice. The panel was asked for its attitude about a \$10,000-a-year executive who pads his expenses by about \$500 a year. The response:

	<i>What I Think</i>	<i>What Others Think</i>
Acceptable if others do the same	6%	27%
Acceptable if the boss knows and says nothing	11%	28%
Unacceptable	86%	60%

Obviously, there is wide, but varying disagreement about the acceptable course in all three situations—even when the law is involved. And businessmen clearly believe that their colleagues maintain less exacting moral standards than their own. These findings, I think, are a measure of the problem which faces the business community as it assays further progress in the area of ethics.

It seems clear that the greatest need is for more discussion of these gray areas where decisions are not clearcut;

where the law is no guide because it does not apply; or where it is easy to rationalize improper conduct which is more profitable in the short run.

These are the areas that cause the most soul-searching among businessmen, and where ethical lapses are most frequent. While the flagrant cases make headlines, this is the great hidden part of the iceberg—the part that is more important than any other in setting the moral tone of American business. Although the public becomes most alarmed about the sensational cases, which offer all of us the most pressing motive for self-improvement, it is the great mass of day-to-day problems which must be handled ethically if we are to achieve the standards we seek.

If we can nail down generally acceptable standards for the principal gray-area problems, we can lift the entire moral plane of business operations.

While some may argue that this is a utopian dream, I consider the task far from hopeless. Businessmen are ready to discuss morality on a practical level—even though some may be tempted to do so behind closed doors lest the public become alarmed.

Before you conclude that it's futile to tackle business problems in moral terms, take another look at your morning newspaper. Make a checklist of the major issues of the day, nationally and internationally. On what terms are most of these questions debated in the halls of Congress, in the United Nations, in diplomatic conferences? You will find that moral arguments are used more often than any others—a clear demonstration that the great mass

of humanity is swayed more by moral considerations than power politics.

If the businessman realizes that moral questions are vitally important to the mass of humanity—his customers, after all—he will act quicker than you might expect to come to grips with the moral problems involved in his operations.

I believe a great moral debate already is well underway in American business. It has been picking up steam for several decades and has been accelerated as a result of the handful of recent major scandals. Here is just one illustration of the kind of thing that has been happening:

Early in 1962, a ride on the Monday morning commuter train to Grand Central Station became a unique experience for seventy-two businessmen from the Manhattan suburbs of Chappaqua, Pleasantville and North White Plains. Although daily train trips through the Westchester countryside were routine for these men, the Monday trips fell far outside the regular pattern. There was no time then for the usual preoccupation with newspapers, playing cards, office reports, and idle conversation. Even the train itself was different on Monday: a thirteenth car was added so the businessmen could congregate in complete privacy—to discuss business ethics with a Chappaqua clergyman.

As an experiment in moral uplift, this pioneering seminar on rails was a notable success. The participants avoided sentimentality, sermonizing and plugs for denominational dogma. The talk centered squarely on the

gray-area problems that are an everyday feature of business life.

How, for instance, do you deal with a boss who urges you to pad your expense account so you can get a tax-free pay increase? And do you retaliate against a fellow worker who is blocking your personal advancement? And when does a business gift represent an innocent goodwill gesture rather than a blood relative of commercial bribery? These were the questions discussed.

As the businessmen left the train, they dropped their personal comments on the day's topic in a yellow box, along with notes on problems of particular concern in their own business activities. These notes were fodder for future discussions.

The seminars continued every Monday morning for eight weeks. They were directed by the Rev. Dr. Edwin D. McLane of Chappaqua's First Congregational Church, who originated the idea after having difficulty scheduling weekend or evening seminars at his church. Since businessmen seemed to have too many conflicting engagements during their free time at home, Dr. McLane hit on the idea of getting them together during the long train ride to the city. The trip represented the biggest block of free time common to all the men.

I feel quite sure that fifty years ago you couldn't have gotten a dozen businessmen to buckle down to moral questions in such an organized fashion. The fact that seventy-two responded is a measure of the progress we have made. And it also reflects the current responsiveness of business executives to suggestions that more thought

be given to moral considerations which should underlie their actions. I think it is pertinent to note that the lay leader of Dr. McLane's seminar was an official of one of the large corporations which admitted guilt in the electrical industry price-fixing case.

The Chappaqua experiment, while unique in its outward trappings, was not so unusual in its intent. In recent years, business leaders at all levels have been discussing ethical questions more frankly in public speeches. Some have even dealt with the subject in their annual reports to stockholders. And magazines aimed at a business audience have been giving increased attention to moral issues.

It would be tragic if the American business community bypassed the current opportunity to make giant strides in elevating its ethical standards. Each of us would be the loser, and collectively, that means that our country would lose.

We obviously are engaged in a supremely important struggle to demonstrate the superiority of our system over one alien to all our concepts. And the strength of our business system—morally as well as materially—will bear heavily on the eventual outcome.

I believe that each of us should do his utmost to contribute to the common effort, which actually embraces all segments of our society. We cannot afford to "let George do it."

THE LESSON OF HISTORY



The days of the business buccaneer, when many of the most successful industrialists were engaged in something close to organized piracy, seem a very distant part of our national history. Still, I remember very clearly our local “robber baron” in the small town where I grew up. And I particularly recall an instance that dramatized in a striking way his strange conception of the businessman’s responsibility toward society.

This man was a living caricature of the overfat capitalist—the kind that survives in Communist propaganda cartoons. He chewed tobacco, walked with a strut and covered his ample belly with a vivid red vest that was draped with a heavy gold watch chain. Everyone in town thought he was real smart, and it surely was ob-

vious that he had done very well for himself. He controlled not only the local mills but the village itself—the company store, the company schools, the company houses and, to a great extent, even the poor wooden churches of the community. On several occasions, I've heard, he persuaded some of the preachers, who depended on him for financial support, to help combat union sentiment and keep the minds of the workers on religion rather than economics.

And I feel sure that he regarded his rather despotic paternalism as evidence of an active social conscience; as proof of his concern for the welfare of his fiefdom.

My sharpest memory of the man dates back to a morning when he issued orders that all the students in our elementary school, which had six grades, be marched to his home. There were some two hundred to three hundred of us and we trudged happily, two-by-two, to his big house on the hill, glorying in our brief outing. Waiting to greet us were the "big boss" and two of his Negro servants. Each servant was holding a large washpan full of quarters fresh from the mint. We lined up in a large semi-circle on the spacious lawn and our benefactor passed in front of us, stopping before each eager face to dole out a coin. To each of us, he repeated the same admonition: "Tell your daddy I gave you a quarter."

To this man, the gift of a quarter to several hundred schoolchildren was an act of tremendous generosity and kindness. And perhaps it salved a conscience troubled by other deeds less noble and kind.

According to one account, which I heard later, our

“big boss” took the savings of investors and used the money to speculate in the cotton market. If he lost, it was charged to the mills; if he won, the proceeds went into his own account. I never knew the truth of these accusations but I did learn, several years later, that he had a very bad reputation for scheming and sharp practice.

I’m glad I can report that the actions and attitudes of this man differed sharply from those of the present-day owners of the principal Leaksville mills in the area. These particular mills changed hands after I left the community in 1950, being taken over by a group of supposedly tough financiers. But the man who put up most of the money is a truly generous and socially responsible individual quite different from our local baron of sixty years ago. The new boss is pouring millions into the property, modernizing his equipment and getting ready to meet any competition. I have commended him several times for his far-sighted policies, which I felt would prove very profitable in the long run. On such occasions, he has replied:

“I suppose those things will come, but I am thinking in terms of the people; I am thinking in terms of the four or five thousand jobs that must be preserved; I am thinking in terms of those people who have given years of their lives to making this business profitable for the owners; and I am going to keep on pouring in the money and not worry too much about what I personally get out of it.”

Sixty years is a very short span in the history of our civilization but the past sixty have produced many dra-

matic changes. And the contrasting attitudes of the two mill owners of Leaksville are one measure of the progress that has been made in developing the social and moral attitudes of our business community.

The progress has been so great, in fact, that it would be easy to conclude that we no longer need to fret too much about further progress. Be mindful, however, that even as one mill owner is trying to preserve a vital community asset at the expense of short-run profits, the leaders of businesses in other towns may be yielding to the expediency of short-term profits at the expense of the welfare of their community and nation, and even the long-range welfare of their own firms.

There is an important lesson to be learned from the business history of the past sixty years and I would state it this way: Conditions change year by year, creating new problems as old ones become less pressing. Because time does not stand still, the job of polishing up our business standards will never end.

The emergence of new problems—and the need to give them serious thought—certainly was reflected in the attempt by U.S. Steel to add six dollars to the selling price of a ton of steel in April 1962. This action prompted a national debate on the social responsibilities of business; the moral responsibilities, if you will. A few decades ago, there would have been no debate. The price of steel would have been regarded as a purely economic proposition falling solely within the province of the industry. The nation's stake in so important a pricing decision would not have entered the picture. Yet when Inland

Steel announced it would not follow the example of the industry's No. 1 producer, it explained that a six dollar increase would not be in the national interest. Most Americans agreed, a great many businessmen included.

Because history does offer a lesson that is most pertinent to the subject of business standards, I'd like to trace, in very broad outline, some of the developments that have occurred during my own lifetime. They provide a basis both for optimism and concern. Moreover, the fact that so much has happened in so short a time points up the speed at which the world moves—and the dangers which businessmen and the free enterprise system risk if they don't move with it.

I'll begin with Andrew Carnegie, not because his business practices differed markedly from those that would be acceptable today—which is true enough—but because he was considered by many to be one of the more enlightened industrialists of his age.

Mr. Carnegie knew grinding poverty from personal experience. As an immigrant lad of twelve, he went to work as a "bobbin boy" in a Pennsylvania cotton mill. He reported for work before dawn six days a week and was released after sunset. He was paid \$1.20 a week for labor so arduous that, as he later recalled, "slavery might not be much too strong a term to describe it."

Young Carnegie's next job was little better. He was put to work firing a boiler and running a small steam engine that powered all the machinery in a local mill. It was a big responsibility for a boy of grammar school age and

the strain was great—too great, in fact. Many times, Carnegie awoke at night and sat upright in his bed, mentally adjusting the steam gauges lest the factory be blown to bits.

Having fought his way up from these stark beginnings, it isn't surprising that Andrew Carnegie was one of the "enlightened" capitalists of his era. Yet any reader of *The Gospel of Wealth*, which he published in 1901, will discern very quickly the limits of his enlightenment.

For one thing, the book includes an essay on "The Advantages of Poverty"—a discussion in which Mr. Carnegie concluded that the abolition of "honest, industrious, self-denying poverty" would threaten the progress of civilization. I doubt that any multi-millionaire today would have the temerity to bare this kind of thinking in public.

Mr. Carnegie also devoted much space to labor relations. And the views he expressed undeniably were quite advanced for his day—to say nothing of the fact that they contrasted most sharply with the celebrated battle waged at his Homestead steel mill near Pittsburgh during labor's early struggle for management recognition. Wrote Mr. Carnegie:

The right of the working-men to combine and to form trades-unions is no less sacred than the right of the manufacturer to enter into associations and conferences with his fellows, and it must sooner or later be conceded. Indeed, it gives one but a poor opinion of the American workman if he permits himself to

be deprived of a right which his fellow in England long since conquered for himself.

Few would quarrel with this statement today, although a great many businessmen found fault with it in 1901. However, another passage, in which Mr. Carnegie discussed the mutual benefits that flow from periodic meetings of management and labor representatives, speaks volumes about the kind of labor negotiations envisioned by the great steel magnate:

It is astonishing how a small sacrifice upon the part of the employer will sometimes greatly benefit the men. I remember that at one of our meetings with a committee, it was incidentally remarked by one speaker that the necessity for obtaining credit at the stores in the neighborhood was a grave tax upon the men. An ordinary workman, he said, could not afford to maintain himself and family for a month, and as he only received his pay monthly, he was compelled to obtain credit and to pay exorbitantly for everything, whereas, if he had the cash, he could buy at twenty-five per cent less. "Well," I said, "why cannot we overcome that by paying every two weeks?" The reply was: "We did not like to ask it, because we have always understood that it would cause much trouble; but if you do that it will be worth an advance of five per cent in our wages." We have paid semi-monthly ever since.

Needless to say, there are many labor relations experts working for industry today who wish their problems could be solved so easily—and cheaply. Still, Mr. Carnegie's workers "did not like to ask" for two pay days a month for fear of inconveniencing their employer. While this sounds foreign to our ears, the docile attitude of labor was a commonplace in many industries at the time, as I can testify from my own experience.

When I got my first job in 1910—at the same age that Mr. Carnegie began his business career, coincidentally—I received five cents an hour. And none of us ever thought of questioning the rate of pay. We received three dollars a week for sixty hours of work. And we worked without interruption, never hearing of the luxury of a coffee break—to say nothing of a vacation, paid or otherwise.

Some four or five years later, I was making seventy-five cents a day, or seven and a half cents an hour. In the environment of the times, I was doing real well. So well, in fact, that my foreman, or overseer, was astounded when I told him I wanted to go to college.

"Luther, don't be foolish," he cautioned. "You are doing good here, and I expect in another year you'll be making a dollar a day or more if you keep working."

Without a doubt, the treatment of labor constituted one of the great ethical problems facing businessmen near the turn of the century. And this remains a great problem—but in a much different context. In Mr. Carnegie's day, it was often a question of whether workers had a right to organize and bargain collectively with their employer. And even when they were granted the

right to bargain, negotiations frequently were confined to such problems as the timing of pay day. Employers showed far less willingness to discuss the level of wages.

Today, organized labor has won so many benefits and so much power that it shares with management the moral problems that spring from the temptation to misuse great power. And unions, like the companies with which they bargain, have had to establish their own formal codes of ethics.

Another major moral problem that faced the great capitalists of 1900 involved the proper use of their vast fortunes. Many of these titans of industry had started life in poverty and they felt somewhat uncomfortable—and perhaps a little guilty—about the fortunes they had created.

Andrew Carnegie was more troubled than many of his colleagues and, in the title essay of his book, he expressed a philosophy of philanthropy that perhaps was more influential than anything else ever written on the subject. Mr. Carnegie declared that it was the duty of the man of wealth “to consider all surplus revenues which come to him simply as trust funds, which he is called upon to administer . . . in the manner which, in his judgment, is best calculated to produce the most beneficial results for the community.” He devoted a great deal of thought to the art of giving and reached these conclusions:

. . . the best means of benefiting the community is to place within its reach the ladders upon which the aspiring can rise—free libraries, parks, and the

means of recreation, by which men are helped in body and mind; works of art, certain to give pleasure and improve the public taste; and public institutions of various kinds, which will improve the general condition of the people; in this manner returning their surplus wealth to the mass of their fellows in the forms best calculated to do them lasting good.

Mr. Carnegie's thoughts had tremendous impact. All of us have benefited, I am sure, in some fashion from his gifts, and those which he inspired. Without question, he established philanthropy as a prime moral obligation of the very rich, causing many men to give new thought to the disposition of their fortunes.

Such a man in my state was Mr. James B. Duke, creator of a vast tobacco trust that destroyed scores of independent tobacco factories in North Carolina and elsewhere, until the trust itself was smashed by a federal court.

Mr. Duke seldom is remembered today for his rough business tactics. Rather he is known for the creation of Duke University—through the re-creation of old Trinity College—and for the Duke Foundation that even now helps local hospitals and Methodist preachers in the region served by the efficient Duke Power Company.

Perhaps the alteration of our memories is exactly what Mr. Duke intended—and Mr. Carnegie, too, for that matter.

True, these men sometimes gave heed in other ways to the moral consequences of their economic power, some by recognizing labor unions and some by raising the banner of paternalism. However, they were blind to many of the moral issues that should have struck them squarely in the face. Mr. Carnegie, for instance, apparently gave little thought to the businessman's obligations to his competitors and his customers, which now are well-established areas of business concern.

Social evils springing from the creation of great trusts also were beyond Mr. Carnegie's field of vision. In the same volume in which he argued the merits of philanthropy, and defended labor's right to organize, he decried all governmental efforts to control the trusts. He argued that business and the forces of competition could handle this problem without interference. And he even saw a positive good in the trend toward monopoly power:

We conclude that this overpowering, irresistible tendency toward aggregation of capital and increase of size in every branch of product cannot be arrested or even greatly impeded, and that, instead of attempting to restrict either, we should hail every increase as something gained, not for the few rich, but for the millions of poor, seeing that the law is salutary, working for good and not for evil. Every enlargement is an improvement, step by step, upon what has preceded. It makes for a higher civilization. . . . Superficial politicians may, for a time, deceive the uninformed, but more and more will all

this be clearly seen by those who are now led to regard aggregations as injurious.

As it happened, the politicians—and the voters—did not buy this particular gospel of wealth. And neither did many businessmen. Starting in the farm states, where artificially high freight charges dictated by the rail trusts were particularly hated, legislators began enacting anti-trust laws. The first federal statute in this field, the Sherman Act, followed in 1890. It declared: "Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several states, or with foreign nations, is hereby declared to be illegal."

The Sherman Act was far from a perfect legal instrument, because of its vague phrases and the failure of Congress to define such terms as "trust," "combination," and "restraint." Furthermore, little effort was made to enforce the new law until 1902 when President Theodore Roosevelt adopted a vigorous antitrust policy.

One of T.R.'s first moves was against the Northern Securities Company, a trust through which the elder J. P. Morgan and James J. Hill won control of the once-competing Northern Pacific and Great Northern railroads.

Many businessmen—Morgan included—failed to grasp the significance, or earnestness, of Roosevelt's action. Morgan, long accustomed to free-wheeling without federal interference, revealed his attitude at a White House meeting with the President: "If we have done anything

wrong, send your man to my man and they can fix it up." He soon found that things didn't work that way any more. The Supreme Court eventually did the fixing, ordering the breakup of the Northern Securities Company.

Came now the "muckrakers"—energetic journalists for popular magazines who exposed trusts, municipal corruption, banking and insurance abuses, and many other evils in a detailed fashion never attempted before on such a scale. The public read their articles and demanded reform. And it wasn't only the public that was concerned. Business itself often was in the forefront of the reform movement.

Leading the parade of businessmen who initiated drastic changes in business practices were the retailers, notably the owners of big city department stores and the chains which were just beginning to operate on a national scale. Because these men dealt directly with the public and sought large markets, their reforms represented enlightened self-interest. But this fact did not detract at all from the significance of their innovations. All of us remain in the debt of men like Edward A. Filene, Marshall Field and John Wanamaker.

Filene did much to establish the one-price system of merchandising. That is, he had his clerks sell goods at plainly marked prices, without the haggling that had been characteristic of department store operations. He also did a great job in connection with the establishment of credit unions to protect his employees from loan sharks. And in my own company, Marshall Field was a leader in establishing the theory that "the customer is always right."

He made it a rule that the customer could buy anything from Marshall Field & Company and, if it were not entirely satisfactory, it could be returned for credit or a cash refund with no questions asked. This practice created a sensation at the time.

Many manufacturers followed the retailing pioneers in revolutionizing their operations. And again it was a matter of enlightened self-interest—further evidence to support the widely-held belief that good ethics are good business. Manufacturers often were motivated to raise the tone of their operations because their goods were moving into national markets and they needed national acceptance and national goodwill. The emergence of brand names was a part of the picture.

Even when government stepped in and enacted laws to regulate business, it did so as much for the protection of competition as the protection of the public. The Federal Trade Commission Act of 1914 was designed to insure fair methods of competition and to protect small firms from the encroachments of industry giants. The Pure Food and Drug Act of 1906 was enacted to put a halt to the stream of nostrums and poisons that were flooding the market as medicine—and doing great damage to the reputable segment of the drug industry.

In these cases, and others, business was curbed by government only when there was demonstrable evidence that abuses were not being corrected by industry itself. And in many instances, the new laws were applauded as much by reputable businessmen as by consumers.

It certainly would be wrong to think of these laws as

purely negative in their impact on business. These measures were designed to protect business as a whole and to assist it.

Side by side with the enactment of federal statutes came self-regulation by business itself. There was a new zeal to draft formal ethical codes for individual firms and entire industries, with trade associations often taking the lead. Many of these codes were very specific, using language that provides a good clue to the sort of chicanery that inspired them. To cite but one example, these were among the unfair practices pinpointed in a code adopted by the National Association of Ice Cream Manufacturers during this period:

Inducing a customer or competitor's employee to introduce foreign substances into a competitor's goods or to otherwise injure its salability or condition.

Bribing competitor's employees for any purpose or spying on competitor's plants. Trailing competitor's delivery and sales agents. Bribing railroad employees for information about competitor's shipments, or the use of any means for the procuring of a competitor's business or trade secrets.

Inducing competitor's employees to leave in such numbers as to disrupt his organization or embarrass his business.

To sue a competitor for purpose of intimidation. To force a competitor out of business unless he agrees to keep out of certain territories. To with-

draw advertising unless competitor's advertising is excluded, or unless certain discriminatory favors are granted. To withdraw patronage from a firm supplying materials if same materials are sold to competitors.

Depriving a competitor of transportation facilities through bribery of railroad employees or otherwise, or the use of any means whereby the movement of a competitor's product is hampered.

Bidding up prices of raw material to a point where business becomes unprofitable, for the purpose of driving weaker competitors out of business.

Giving away goods or supplies or samples other than is customary in such quantities as to hamper and embarrass competitors, or in such volume as to have the effect of giving a rebate.

Furnishing or offering exceptional and unusual store or advertising equipment to a competitor's customers as inducement to a customer to change.

If these practices were commonplace enough to warrant specific censure in a code drafted by the trade group representing the ice cream industry, imagine what must have been happening in larger and more competitive lines! In truth, things were so bad that business itself was not afraid to call a spade a spade and work for reform. And the results were salutary.

It has been said that more progress was made in elevating the moral standards of business between 1900 and 1915 than during any other period. But just as the public

was ready to accept the business reformation as enduring and effective, the scandals of the Harding administration—engineered by greedy businessmen and venal office-holders—threatened to destroy the newly-won public confidence.

Responsible businessmen again took the lead in demanding that the business community act quickly, and in a no-nonsense fashion, to dispell the latest threat to public confidence by making a renewed effort to clean up its own affairs. One man who minced few words in issuing such a call for action was Edwin B. Parker, board chairman of the Chamber of Commerce of the United States. In his address to the Chamber's annual meeting in 1928, Mr Parker said:

Business does not exist unto itself alone. Business exists only by reason of what it does for others. It finds its opportunities to continue and to develop only in advancing the welfare and happiness of all those from whom it buys, those to whom it sells, and those whom it employs. In the final analysis business deals with human welfare and human happiness. Its function is to find ways of promoting human welfare and of adding to the opportunities for human happiness. . . .

The recent conspicuous examples of individuals, prominent in big business, becoming intoxicated with power and involved in transactions tainted with fraud and corruption, violating every principle of sound business conduct, holding themselves above

the law, are not peculiar to this day nor to the profession of business. Every generation, every profession, has its unfaithful members. But business . . . must, in order to maintain its professional status and to reap the unquestioned advantages of group action, scrupulously discharge its group responsibilities.

Among these responsibilities is to see to it that the profession of business is purged of those pirates whose acts stigmatize and bring business generally into disrepute. . . .

This Chamber is committed to the principle that Government should not enter the realm of business to undertake that which can be successfully performed in the public interest by private enterprise. This principle is politically and economically sound. We are here concerned in pointing out to businessmen everywhere that this principle is in far less danger from the propaganda of radical agitators than from the members of the business profession who are faithless to their obligations, who break down public confidence, and who provoke Government regulation.

Congressional investigations of particular business activities are sometimes bitterly denounced. Many Congressional investigations are of the highest value to the public, including business. The demoralization to legitimate business that sometimes follows in their wake can be largely avoided by organized business

doing its own investigating, and frankly and fully laying all pertinent facts before the Tribunal of Public Opinion. A business which cannot stand this acid test is not entitled to prosper. The public, which is entitled to know the facts, will be satisfied with nothing less. Organized business should itself perform this task in its own and in the public interest. Failing to do so, Congress should and will act.

. . . Every member of the profession of business who fails to observe the canons of decency and fair play and good sportsmanship, or everyone who, living up to those canons himself, lacks the courage to speak out in condemnation against that minority which brings business into disrepute, is "slacking" in his duty—in his duty to himself, in his duty to business, and in his duty to the public. And organized business, if it is to continue to deserve public confidence, must brand such slackers business outlaws.

Had Mr. Parker made this address twenty-five years earlier, I suspect he would have been branded himself as a business renegade. But in 1928 he was a business statesman. All of which speaks well of the progress made during the early decades of this century.

I find it more than a little disturbing, however, that Mr. Parker's words can be repeated today—thirty-five years later—and sound just as timely as in 1928. To me, this fact seems a measure of the progress that must yet be achieved.

• • THE BUSINESS CONSCIENCE • • •

No one in business should be satisfied with the ethical standards of business until the words of Edwin B. Parker become as dated as those of Andrew Carnegie. And even then, as history tells us, new moral problems which we cannot easily envision today will be demanding solution.

Part Two



***the many roles
of the
businessman***

5

THE BUSINESSMAN AFTER HOURS



We cannot see, hear, smell, taste or touch one of our most personal possessions—our individual code of ethics. Yet our code is an inseparable part of us and it can be a priceless asset or have less value than a lead nickel. The worth of a personal code will vary from individual to individual. And even in the case of any particular person, it is apt to fluctuate from year to year—even from week to week—as our ideas, attitudes and practices change. I don't know what the statisticians and scholars would say, but I suspect there are very few people in this world who share precisely the same ethical outlook.

While ethics are very personal, we must remember that each individual's ethical behavior can and must be measured against objective standards. As the Business Ethics

Advisory Council has said in its *Call for Action*, "The ethical standards of American businessmen, like those of the American people, are founded upon our religious heritage and our traditions of social, political and economic freedom. They impose upon each man high obligations in his dealings with his fellowmen, and make all men stewards of the common good." Therefore, in grappling with problems of business morality, we must always remember that individual performance must stand ready to be judged by deep rooted, traditional standards.

Most important of all, we must understand that the question of business ethics is not set off in a compartment of its own. It is part of a broader picture that embraces our whole existence.

One respected dictionary supplies this definition of ethics: "The science of human duty in its widest extent." I like this definition because its scope emphasizes the fact that ethics are a part of "the whole man" and cannot properly be confined to any single phase of a person's life.

Of course, some people lead what is known as a "Sunday" life. They carefully observe all the formalities of their religious faith and are known for their regular attendance at services in church or synagogue. Yet these same people, in many cases, become tough and even unethical in their business dealings. Perhaps innocently and without thinking, they come to regard sharp business practices as indicative of smartness. They do not stop to consider the fact that they have set for themselves a double standard which makes a mockery of the individual's

responsibility to try to do his human duty in its widest extent.

I recall one of my early Sunday school teachers, a lawyer who was an excellent instructor from the standpoint of his knowledge and analysis of the Bible. But his voice had a hollow ring that mirrored his activities on weekdays. I knew what this man did in his political relationships; I knew that he set one neighbor against another, one friend against another.

So here we have a man—maybe you, maybe me—who has set for himself, consciously or otherwise, a double standard. This is the man we must look at; the man who tries to break up his personal ethical code and slip the shattered pieces into separate compartments.

If we sincerely want to elevate our business standards, we must begin by analyzing our entire pattern of living, including our life outside of office hours.

At this point, I feel I must be personal in order to give tangible meaning to the very personal subject we are considering. It is difficult, of course, to be introspective and to attempt to measure your own attitudes and practices, to see if you are really applying in your own life the basic ethical principles you're thinking about and talking about—and writing about. It is difficult, also, to give illustrations from one's own life because you can easily seem egotistical or give the impression of parading your own virtues. And yet, unless we each make our own self-analysis and see how we apply abstract principles to ourselves, then we really haven't made the sub-

ject become meaningful; we haven't done what needs to be done.

A good place to begin making this personal inventory is in relation to the home, considering first our ties with those closest to us. If we do not maintain high standards in dealing with them, and fully meet our responsibilities, we hardly can expect to fulfill our duty toward business associates.

In this connection, it is basic—and obvious—that a man must set a good example for his children. He cannot be satisfied to tell them fairy stories when they are very young or to be a good fellow and toss a football with them as they grow up. He must, in ways much broader than these, illustrate in his own character and actions the kind of person he believes his son or daughter ought to become.

There is no fixed rule or rote that he must follow in setting this example. It might include prayer at meals or in the evening; it might omit them altogether. The things that count most are our instinctive actions and words—even our unexpressed thoughts; all the intangibles that govern our close family relationships.

The job of being a good parent is much more difficult today than when I was a boy. There are so many added distractions facing young people; it is easier to go places and do things; there are new and interesting books and periodicals; there are radio and television programs; there are interesting people to watch and to hear—including people more interesting than one's parents, if you please. And, of course, the same distractions face a mother and

father so they often fail to take the time, or develop the interest, to set an example for their children.

Some months ago, I was visiting one of our daughters who lives several thousand miles from our home. We sat down one evening and talked for quite a long time. We talked about the things she was doing, the role she was playing in church and community affairs—yes, and in local politics. I was very much interested, and quite pleased, when she said that many people in her little town had asked what kind of training she had received to make her so interested in taking part in the Boy Scouts and the Girl Scouts and the Sunday school and community activities of all kinds. She couldn't give them a definitive answer. But she did recall, she said, that her father and mother had done these things and that they had made them seem worthwhile; that the word "service" had been a good word in her home; that it had meant something.

In our discussion, we got to the question of generosity and giving. We discussed, as we had many years before, one's attitude toward giving. And we agreed on the same principle that we had found acceptable twenty-five years earlier: that one can be generous without great means; one can give according to his means, by tithing or following a similar principle. And we discussed the point that one doesn't wait until he or she is wealthy or has lots of time before giving funds or services. If one cannot give a thousand dollars to his family or a charity or someone who needs a college education, he can give one hundred dollars or ten dollars or five. And he can always give a

kind word and can always show an interest, can always advise and help.

As part of setting an example, does a father discuss his business affairs openly with his wife and children? Does he point out that his decisions, little or big, are the same that others have to make and that his children will face in the years ahead? That these decisions differ only in degree. And that he, without literally saying so, simply has one rule to follow: "Is this the right thing to do?"

If he shares with his wife and children this type of family relationship, he does two things: he allows himself time for his own judgment to mature with help or suggestions from his family, and he is unconsciously—in a very easy and natural way—setting an example that will stand his children in good stead for a long time to come.

As we see our three children now from time to time (they are married and have children of their own), we often ask them, "What percentage of your income are you saving? What are your plans for the education of your children?" They smile because they remember that from the time they could first talk and listen, we had said to them: "We don't know what will happen to the family finances later on; we may be all right or we may not be. But we want you to know we are going to try to plan with you for your education. We have a few stocks and bonds and we have dividends coming in, not large but consistent, and the little sums add up to a much greater nest egg than you might think." So we made this promise to our children: "Every dollar of dividends, every dollar from any source other than salary, will go

into a savings account for each of you. And when you are ready for college, the money will be yours to do with as you please—but it is being saved primarily so you may finance your college educations.”

Our two girls were very close in age and by the time they were graduated from high school, we figured each had just about the right amount to finance four years of college. One actually ended up with a surplus that she used to buy a car which was used on her honeymoon; the boy she married was still in college and not able to afford a car. The other girl spent all her money in college and had nothing left. Well, this is natural; this is the difference between two people.

Our son reached college age some years later and, by that time, there was money enough to finance two additional years of graduate work. I hoped he would take advantage of the opportunity but I left the decision to him; all of the money was his.

“You can use it as you see fit,” I told him. “You can spend it the first month or the first year, if you want.”

“Do you want to see the checks and know exactly how I spend it?” he asked.

“No,” I answered, “I want you to take the full responsibility.”

“I’ll have some left over when I finish college,” he promised, which pleased me beyond words—the more so when he made good his vow.

The way in which I financed my own college education was vastly different. Our youngsters had heard about my situation, having passed through the usual stage of

showing great curiosity about their parents' past. And it may be that, in this fashion, I set an example which helped my children in the management of their college funds, even before they were born. You never can be sure what particular facet of your own life eventually may prove of great value in guiding your children.

None of my seven older brothers or sisters went to college; in fact, only two or three completed high school because they had to go to work at an early age to help support the family. My own ambition to go to college drew no particular encouragement and there was no possibility of getting financial help from home. Fortunately, a college education wasn't as costly in those days, but it was a struggle to finance one's own way, nonetheless.

At one point, I went to Roanoke, Virginia, to apply for a job as a "news butcher" on a train—hoping to add to my college fund. I was told I would need a blue suit with brass buttons and a seventy-five cent uniform cap. I had a little more than a dollar in my pocket, so I told my prospective employer that I could meet the requirements if he would let me have the brass buttons for a quarter. He agreed and I got a sister to sew them on my one double-breasted blue suit. While working on the train, I exposed the brass buttons. But when going to church or any dress-up gathering, I turned the coat the other way to show the regular buttons.

By the time I entered the University of North Carolina in the fall of 1915, I had saved a total of \$62.50. By working at various odd jobs on the campus—waiting on

table for board, for example, and acting as agent for a suit pressing establishment—I managed to get along.

Our children knew, from stories like these, the value I placed on a college education, and the amount of effort that the dollars to pay for such an education represent. I suspect this may have had at least a little bit to do with the fact that they managed their funds so well.

Obviously, my own upbringing differed sharply from that of our children, especially from an economic standpoint. But, like my children and youngsters everywhere, I had before me the example of my father.

My father was a very stern and religious man. He came of a poor family and he remained poor during all the years that he was raising nine children. When I was born, he was a tenant tobacco farmer in south-central Virginia but moved, a year later, some eight or ten miles across the border into North Carolina. We moved so he and the older brothers and sisters could find work in the cotton mills at wages ranging from fifty to ninety cents for a ten-hour day.

A man of more than average intelligence and character, my father eventually became a carpenter of sorts and later opened a very small grocery business. Out of this enterprise he eked an existence but never made any real money.

Sunday school and church services were a weekly ritual for our family and we had a rather spartan, formal religious atmosphere in the home.

My father didn't want any of us to mistreat anyone or to allow ourselves to be mistreated. If a person was pat-

ently unfair or using influence based on power or wealth, he resented it and, by his example, we understood that we should resent it, too.

I recall vividly that at the age of twelve, when I was in the sixth grade, the school principal was a tyrannical, poorly-educated man who did the bidding of the school's owner—the same “big boss” who once gave me a quarter. On one occasion in class I challenged one of the principal's assertions that I believed was dead wrong. This stooge schoolmaster hit me across the face with a textbook and announced that I would recognize that he was in charge or get out of school—the only one in town.

My father, when I spoke to him about the incident that evening, agreed that I would be better off to go to work, even at five cents an hour, and wait until a public school was built. He preferred that I not be beholden for a poor education to a powerful individual who controlled the lives of the people in the same way he controlled his business—by using power and wealth and influence without regard to rights or wrongs and with no thought of exerting moral leadership. I remained out of school for nearly two years.

Some ten years later, after I had graduated from college and had come back to this rural mill town, the same man who once had owned the schools was putting his hooks into every part of the county government. By this time the county operated the schools but the mill owner still dominated the educational system, through gifts and bribes to members of the school board. In one instance, he had a school built on his property so the value of his

adjacent lands would increase. Nothing was said about this, however. The people who had enough influence to challenge the scheme—the mill managers, store owners and preachers—were so scared of this man and his power that they dared not speak out.

Although I had no influence in the community, I hired a lawyer and brought suit against the man. I had a good lawyer and he charged me little for his services, because he believed in my cause. Confidently, he pleaded the case in court, convinced the law was on our side. He did not reckon on our adversary reaching the jurors. We lost the case. The school was built and the timid community went on its way, incapable of mustering enough moral indignation or courage to ever do anything against the interests of this powerful mill owner.

If you wink at practices you know in your heart are not right, if you give in to people of influence and wealth or people who can do you favors—that kind of thing goes right through one's life, personal, business and political. Without question, I came to this view quite unconsciously because of my father's example.

Many of the difficulties we have in our society are with people who want an inside track or some special privilege and feel they should be treated differently than others. The businessman who takes this attitude does much to damage the image of all businessmen. The same goes for politicians.

Shortly after I became governor of North Carolina, one of my assistants received a telephone call from a state senator from the North. "I was picked up for speed-

ing by one of your highway patrolmen," the caller announced, "and he gave me a ticket. I'm chairman of the traffic safety committee of our Senate and I want you to tell the governor to fix this ticket. We'd do the same for you in our state." My assistant explained that we did not fix tickets for our own state senators or for U.S. senators, or for our secretary of state or the son of the governor—all of whom paid speeding fines. The visitor couldn't understand this and neither could many of our local politicians. They thought the governor was a terrible ingrate to refuse such small favors to those who had helped elect him.

By setting a good example, fathers can provide the anchors that many young people need on occasion to keep them from drifting into dangerous waters. And others outside the family often can do the same, even for youngsters they barely know. In this connection, I recall the pride we took, back in 1910, in an industrial Y.M.C.A. established in our community. The organization had a bright and energetic secretary who formed a governing board of teen-age boys—to teach us responsibility, to teach us ethics. As part of the program, he had what was called a "bean supper" every Monday night. It cost ten cents a plate and consisted mostly of beans and what we knew as "loaf bread." At these suppers, some volunteer leader from the community would challenge us to always do the right thing regardless of the magnitude of the temptation we might face. I think these suppers and our associations with the governing board did a lot to keep us anchored.

I needed an anchor, too, because of a particular temptation that accompanied one of my assignments at the mill. I helped to fix up the payroll, counting out the workers' cash and sealing it in envelopes. My own wages were so meager that there was a strong temptation to "even accounts" by dipping into the till.

Speaking again of education, I believe that anyone who makes a personal inventory of his ethical attitudes and practices should not ignore his role as an old grad. We all know that whatever amount we paid for our college education, it wasn't enough to cover the actual cost. Our educations were subsidized in good part through the gifts of alumni and others. The successful businessman obviously is in a position to at least attempt to pay off this debt which he owes to his college, thus enabling young men to continue enjoying the same benefits he received.

It's heartening to note that many of our largest corporations now will match, dollar for dollar, the alumni contributions of their employees. These companies feel a moral obligation to help meet the actual cost of educations which provided them with valued talent.

Not long ago, I introduced President Kennedy to a group of businessmen who are working with us in the Commerce Department to further the program of expanding American exports. One of the men we selected for this national committee had been a poor boy who attended a Southern university on a scholarship. He later went to work for one of the mail order houses and was making several thousand dollars a year. But he decided to strike out on his own, and in 1949 he borrowed \$4,500

to start his own business. By 1962, his firm's sales exceeded \$50,000,000 a year. This extremely successful man has a well developed sense of social responsibility. He appreciates what was done for him by the college he attended and now offers to any son or daughter of his employees a college scholarship of \$500 a year. At the time I talked with him, he had more than forty of these scholarships going—and was happy to take on more if the young people claimed the opportunity.

In contrast with this man's policy, I believe many other business and professional people are thoughtlessly contributing to a lowering of the moral tone of many of our colleges and universities, to the great detriment of our young men and women. I refer to alumni support of professionalism in intercollegiate athletics.

A great many institutions of higher learning make a business out of at least one major sport. Athletics, so often termed character-building, thus becomes a cynical and hypocritical commercial operation. And in the process, many alumni lose sight of the real reasons for supporting their alma mater.

In 1961, I addressed the graduating class at the University of Maryland, an institution that once had its troubles with overemphasis of sports. I welcomed the opportunity to express my thoughts on the subject:

I think it is unfortunate that in *some* colleges, there still seems to be a difference of opinion about which is more important—athletics or education.

Now I played on teams in college, and I am fully

aware what a wonderful thing sports can be—in their proper place—and I am for sports and good teams. But their place is secondary. And when you start buying basketball teams, for example, start handing out scholarships for brawn and physical skill rather than brains, and a desire for education, you are mixing values badly and heading for trouble. . . .

The reason for this lingering nonsense that old alma mater must have winning teams can be traced, I think, squarely to us alumni. Through some strange, immature quirk, we seek the prestige of association with a winner. Thus we apply pressure on the old school to build up its athletic plant, and the school, mindful of alumni contributions, may not be strong enough to say no.

I think it's about time the aging rah-rah boys grew up—and let up. If they really need to borrow prestige, let them borrow the best there is—the reputation of a school where education, quality education, comes first, last and always.

Perhaps I offended a lot of old grads who see nothing wrong with the present system. Personally, I see nothing right with a system that makes a university a willing partner to cynicism and hypocrisy. Especially when these evils are subtly transferred to the thinking of the student body, which sees shabby ethical standards embraced by two of the groups they normally admire most: the campus athletes and the successful alumni. And it is equally bad for the alumni who put up the cash to support the

system. If it becomes apparent that you can buy a winning combination of football or basketball players, you may think you can buy anyone; that every man has his price. Also, there is one other inevitable consequence of enormous importance from a moral and ethical standpoint: the corruption of young athletes.

I felt personally betrayed when I learned of the arrest of some North Carolina basketball players who conspired with professional gamblers to shave points and rig odds.

One of these players, Lou Brown, told his story to *Look* magazine and, reading his account, I came to feel that we, the alumni of the University, had been a party to the betrayal. We outbid North Carolina State, New York University and Duquesne for the services of this boy from a poor family in Jersey City. We made his education a cash deal from the start. We wanted a winner and were willing to buy one. The gamblers wanted a winner, too, and they bought one just as easily.

Isn't it evident by now that the gambling scandals that threaten to wreck intercollegiate sports are a product of the cynical athletic subsidy program? Isn't it apparent that a college player who is bought and paid for by one set of interests is ready prey for another?

I think it's time our schools began fielding the best teams possible from their regular student body, without recruiting and hiring top talent from far and near. I believe we would be surprised and happy with the results—and win just as many games. And as we individually gave thought to our responsibilities as alumni, we would not be distracted from our obligation to support *education*.

Another important aspect of the ethical stance of "the whole man" involves his relations with his neighbors. Does one look upon neighbors as a burden to be borne? Does one take them for granted? Or does one live in close, natural contact with them so they can say, "We like neighbor so and so; you can trust him." If a man has the right attitude toward neighbors, he does not gossip about them, try to outshine them, become jealous of them, or take them for granted. He is interested in how they are getting along, in their health, in their children, in their views—in being their understanding associate.

Together with his neighbors, or even without them, he also goes one step further and takes part in community activities. He realizes that someone must do these things and that a good community does not just spring up, nor does it maintain its quality and standing without continued dedicated service. And so we must give time, energy and thought to how we can best serve our community. Instead of criticizing our schools, we must take a constructive interest in them. Instead of berating the local school board, we must be ready to serve on it—and to shoulder the criticism of our neighbors.

I remember telling an audience in June 1955, a year after the Supreme Court issued its school desegregation implementation decree, that one of the most challenging opportunities in the future, particularly in the Southern states, would be to accept membership on local school boards—to take part in the tough decisions, to look after the educational needs of the entire community.

A man who would be a "whole man" and whose life

is to be well-rounded must see that honest and sincere leadership and participation in family, neighborhood and community activities will be helpful not only to his own children now and in the future, but also to the whole of society and, in some measure, to future generations. And it will prepare him better for responsible business leadership.

Inevitably, an individual's personal ethical code involves attitudes toward the responsibilities of a voting citizen. What does the good citizen owe to his community, state and nation? Does he take part directly in "the nasty game of politics"? Does he understand that politics is government and that his country has done pretty well under its political system? That a citizen, through active participation in politics, can help to clean up situations that should be cleaned up?

When I retired from business in my early fifties, I decided to spend the rest of my life in public service. Some friends asked if I was going into politics. Without really weighing the question, I quickly replied, "Not me!" But they pressed the point, saying, "What have you been making all the speeches for? Why have you been telling us that political activity is the responsibility of a citizen toward his government? Why shouldn't you serve in politics and practice what you've been preaching?"

Well, my inquisitors won. Almost unconsciously, I had taken a negative point of view because it didn't seem that I was the one to get personally involved. And yet, as I have served, I have realized that these people were right. I had to make good my theories, my advice. The man

who would criticize and theorize would do better to get into the middle of the fray and translate his theories and complaints into action.

Right from the start in politics, I found that many of my beliefs could readily be transformed into actions that I felt were for the betterment of the state and its government. Of course, I can't say that everyone agreed.

One of the first ethical problems facing any candidate for public office involves the use and management of campaign contributions. In my first political race, for lieutenant governor of North Carolina, I did not spend all the funds contributed so I made pro rata rebates. A lot of politicians, hearing about this, thought I was a strange bird, indeed. The fact was that, in state campaigns, it had long been the practice—after a successful race—to claim you had spent more than you actually did spend. This paved the way for a post-election fund drive to cover the campaign "Deficit." And a lot of people—particularly those who had not supported the successful candidate—felt they couldn't refuse to kick in to these slush funds for politicians who soon would be taking office.

Actually, I never have had a code of political ethics, any more than I've had something that could be labeled a business code. In both fields I have tried to govern my actions by the same standards which apply to all my other activities. While politics and business may present specialized ethical problems peculiar to these areas, it has been my experience that the problems can be resolved by applying the broad standards of the whole man.

I think one of the few things to remember as we enter

into various activities involving the family, the neighborhood, the community, the business world, or whatever, is that we proceed in a natural and sincere manner, avoiding actions that are artificial or motivated by a concern for appearances. And we must try to be consistent, seven days a week, in the standards we observe. This makes for an easy, normal relationship and our judgments and actions tend to become instinctive and constant. Although this is easier said than done, each of us certainly can set such a goal.

A very simple but dramatic incident comes to mind to illustrate the instinctive way in which a man acts when he feels an individual responsibility to help maintain the moral and social standards of our society. It involved Colonel John H. Glenn, Jr., our first world-orbiting Astronaut.

A few days after receiving the plaudits of his fellow citizens, Colonel Glenn demonstrated his courage, his conscience, his instinct for doing the right thing, in a way that I found fully as inspiring as his globe-circling flight.

Colonel Glenn prepared carefully for his flight. He had hundreds of scientists backing him up. He had millions praying for him. He had a world looking anxiously to his success. But in an incident that occurred just a few days later, near his home in Arlington, Virginia, he was alone—with his conscience and his character to guide him.

On a Saturday evening, the Colonel went to a friend's home to pick up his teen-age daughter, who had been attending a party. He found some roughneck boys milling around the house and one of them threw a beer can on

the lawn. To the boy who threw the can, Colonel Glenn said, "Pick up that can." The boy paid no attention. "I'll give you ten seconds to pick up that beer can," warned the Colonel, who did not know the youths and was himself unrecognized. Sullenly, the boy picked up the can.

Colonel Glenn then overheard one of the boys suggest to the others that they go to a neighborhood church to see what was stirring. It happened to be the Colonel's church and he followed, to make certain that no harm was done. When he arrived, the boys were crowded around the minister in the parking lot, cursing him as he urged them to leave. The Colonel approached and echoed the clergyman's request. But the boys did not budge. Colonel Glenn stepped over to their car to get the license number so he could report the incident to the police. One of the young ruffians rushed over and stood in front of the license tag. The Colonel pushed him aside and, as he did so, one of the boys took a swing at him. Colonel Glenn pinned the young man's arms and quickly got control of the situation. The boys left rather hurriedly and the police were notified. The Colonel returned to Cape Canaveral without disclosing his part in the affair. He went back as a citizen with a clear conscience, having done his duty calmly, almost involuntarily, because it was the right thing to do.

Within a week of this episode, something happened across the Potomac River in our nation's capital that contrasted sharply with the Colonel's cool response to duty. A group of thugs beat up a bus driver and took his money while thirty passengers watched in silence. The passengers were casual, indifferent and cowardly, not

realizing that if one had gone forward to aid the driver, others would have followed. To make matters worse, only one seventeen-year-old boy responded when the driver asked later for the names of the witnesses. And police discovered that the boy gave a fictitious address.

Have you ever asked yourself what you would do under circumstances similar to these? Don't ask yourself what you'd do on the battlefield or what you'd do in orbit. What would you do at the church, in front of your home, or on a bus?

The lack of a sense of personal responsibility, the failure to have a sense of moral priorities, is too prevalent among our citizens, both young and old. Some months ago, I heard a sermon by Dean Sayre of Washington's National Cathedral. The Dean told of a National Guard general who was approached in New Orleans in 1939 by someone who sought his reactions to Adolf Hitler's menacing antics, intimating to the general that these constituted an international danger.

"Well," the general responded, "when the Mardi Gras is over, perhaps we'd better look at the thing you're talking about."

Probably each of us has our own Mardi Gras and we must enjoy it to the fullest in our own selfish way before we decide what ought to have priority in our thinking and our actions. But if we fail to take the time, individually and collectively, to analyze and strengthen our personal code of ethics, we will not be prepared to meet the ethical problems that arise in our business, social or political activities.

6

BUSINESS AND GOVERNMENT



On many occasions during the past decade, while I have been in government at both the state and federal levels, I have noted—and stated—that the average businessman or industrialist seems to have great difficulty understanding, and appreciating, the role of government in the economy, or seeing the ethical side of relations between business and government.

It is basic that the ethical businessman—the one who would do his human duty in its widest extent—must do what is right by the rest of society. And that means doing right by government as well. The businessman who fails in his duty to government is not ethical, any more than the man who fails in his duty to his family, neighbors and community.

A great number of businessmen resent many of the

things that our federal, state and local government do. They discuss among themselves, and intimate to the public, that much of this government is unnecessary, wasteful, and should be abolished. They speak of government encroachment on the business community, centralization of power, and a trend toward socialism. They don't stop to consider that government reflects the attitudes, wants, and needs of all of society and that, since this is an industrial society, business thinking is mirrored very often in the actions and policies of government.

Also, there is much careless thinking and careless talk about government being against business when, in fact, what is done by government is designed to help one segment of business against the harmful actions of another segment.

As a government official, I have met often with business groups around the country and tried to come to grips with some of the problems and attitudes which, I believe, stem in many cases from confused thinking. In these meetings, where we have taken our hair down and tried to speak frankly and reasonably, I have asked my business friends:

Have you ever tried to figure out why government is meddling in your affairs and the affairs of the public through its regulatory bodies? Have you ever made an effort to understand why there are so many agencies to inspect meats, poultry and other foods, to inspect tenements and other types of housing in the interests of health, sanitation and safety? Have you asked why we have a Federal Trade Commission, Securities and Exchange

Commission, Federal Power Commission or Interstate Commerce Commission?

If you study the origins of these agencies, you will have to draw the conclusion that all these things, troublesome and expensive as they may be, become necessary in modern, thoughtful government because a minority of people in professions, businesses and other groups act unethically, act illegally, or fail to do what the public—and responsible businessmen—regard as the correct and proper thing to do.

In these discussions, I often add: Do we ever ask ourselves, as individuals and as members of business and professional groups, whether we have the courage or the interest to try to police ourselves, discipline ourselves, clean up our own affairs—or do we finally have to admit we are too timid or casual to shoulder these responsibilities?

Earl W. Kintner, a Republican attorney who was chairman of the Federal Trade Commission during the latter years of the Eisenhower administration, told a business group in New York not long ago: "As I see it, either private enterprise in the United States assumes a larger role of voluntarily regulating its advertising and other business practices, or the government necessarily will fill the vacuum by a higher degree of compulsory economic control." Mr. Kintner added that he hoped the business community would act on its own because, "in a democracy, the authority of faceless government can never satisfactorily substitute for the self-discipline of the individual free citizen."

As Mr. Kintner indicated, where government regulates, someone has failed to self-regulate. And I might add that the business world is not alone in this predicament. Labor, also, with the great power it has accumulated in recent decades, must act responsibly and police its own affairs or government will step in, because the public will demand it.

Another point often overlooked in discussions of federal regulation is the clamor of business itself for regulation—of the “other fellow.” As President Kennedy remarked recently in addressing a business audience: “Nearly every action taken by this government and by previous administrations in the field of antitrust actions, or actions by the Federal Trade Commission, have been based upon complaints brought by businessmen themselves. This is in the interest, therefore, of business as well as the general public.” How easy it seems to be to forget this fact. How often business itself asks government to do something after failing to take actions on its own that would make federal intervention unnecessary.

There is a glaring inconsistency here that extends beyond demands for regulation of the “other fellow.” Shortly after the steel price dispute, the *New York Times* observed that “the very businessman who fights tax curbs on his expense account or his overseas earnings may be found supporting a government subsidy for his business, fighting postal rates that would make the postal service self-sustaining, or asking Washington to clamp down on oil imports.” These were but a few of the many examples of this kind that could be cited.

Do businessmen really believe that this inconsistency goes unnoticed? You can be sure that millions see what is happening and, as a direct consequence, develop a cynical attitude toward business—precisely because business itself often seems cynical and self-seeking in its dealings with government. There is a danger here that every businessman should recognize, and attempt to eliminate.

Government, of course, must be fair in dealing with business as with the rest of the electorate. President Kennedy dealt at some length with this subject in addressing the 1962 annual meeting of the Chamber of Commerce of the United States. He said that, as President, he had been impressed by the degree to which the best interests of the national government and the country are tied to the enlightened best interests of its most important segments. "But I have also been impressed," he added, "that all the segments, including the national government, must operate responsibly in terms of each other, or the balance which sustains the general welfare will be lost." At another point, Mr. Kennedy said:

While government economists can point out the necessity of increasing the rates of investment, of modernizing plant productivity, while Washington officials may urge responsible wage-price decisions, we also recognize that beneath all the laws and guidelines and tax policies and stimulants we can provide, these matters all come down, quite properly in the last analysis, to private decisions by private individuals.

It is easy to charge an administration is anti-business, but it is more difficult to show how an administration, composed we hope of rational men, can possibly feel they can survive without business, or how the nation can survive unless the government and business and all other groups in our country are exerting their best efforts in an atmosphere of understanding, and I hope cooperation.

After the President finished, a businessman from Utah told the *New York Times*, "He didn't fool me a bit." And many in the audience apparently felt the same way because they accorded the President a very cool reception. I can only conclude that many who heard the President listened without thinking, with closed minds. If they had followed the logic of his presentation, I'm sure they would have found his reasoning compelling. And there is no question in my mind but that the President, a man of logic, meant exactly what he said.

As Mr. Kennedy emphasized on this occasion, and on many others, government needs business profits. The enterprise that does not earn a profit cannot, in the long run, even be a good citizen. Former Dean Donald Kirk David of the Harvard Business School phrased it this way: "Under our system, only the business that makes a profit makes a contribution. For a time, a business that does not make a profit can continue in existence, but only because it is subsidized by other parts of society. Over the longer period, it cannot be a good producer of material

satisfactions or even a good taxpayer; in the long run it becomes a drain on society.”

Business and government are completely interdependent. And it behooves both to approach common problems in a spirit of cooperation, making a sincere effort to understand each other's point of view. The businessman or government official who wants to be ethical can operate in no other way.

I have spent many years in both government and business and I can testify that, in many ways, government is a business like any other, but with a unique product of responsible service to the public that no competitor can supply.

Shortly after I was elected lieutenant governor of North Carolina in 1952, a *Business Week* reporter came to me and asked, “What happens to a businessman's thinking when he gets into politics?” I told him that the businessman can and should take into politics or government the same basic ideas and ideals that governed his conduct in business. And there is no reason why he cannot employ the same management techniques that he has used all his life. The chief difference is that a businessman can say to a subordinate, “You do this or else.” In government, you can't hold up a club like this, but must persuade people that they should act in a certain way which you feel is best for the interest of the state as a whole or the nation as a whole.

I have told many audiences throughout the country that if people want to get things done, they should tackle them first without government's assistance. If this proves

impossible, they should work at the local level, at the lowest rung of government. And they should not come to the state government or the federal government asking for things they can provide for themselves.

Although I am sure the great majority of business people would subscribe completely to this philosophy, very often individuals will duck their responsibility when the time comes for action rather than words. They will happily spend their time criticizing, but fail to do those things that are necessary if government intervention is to be avoided. And if a bad situation does arise in government, they often will not make the effort to get into government or even to become active voting citizens to see that the situation is corrected.

A great many federal programs—more than you might think at first blush—are founded on the principle that it is best to give incentive to local initiative; that you can't help people who are unwilling to help themselves. I believe an outstanding example is the area redevelopment program administered by the Department of Commerce in conjunction with other agencies. This is a program that requires everyone's energy and cooperation. And, believe me, nothing finally is done in Washington under this program unless the initiative comes from the local level. Each community does its own planning and federal help is matched where possible. Had local interests been unwilling to pitch in, however, you may be certain that we soon would have seen an insistent demand that Washington take over the whole job.

It is regrettable, to say the least, that businessmen are

not always so willing to work cooperatively with government; that they often act as though government were an implacable foe. I refer to that group of businessmen who take the attitude that where government is concerned, no holds are barred; that "beating the government" is an admirable pastime.

Just as my textile friends took advantage of my presence in government during OPA days to claim a benefit they did not deserve, others today are taking advantage of the national security program that insures their own survival.

The Senate Permanent Subcommittee on Investigations, with Senator McClellan of Arkansas as its chairman, held extensive hearings in 1961-62 on charges of profiteering in the missile program by both management and labor.

Even if only a few businessmen attempt profiteering, a great many play a cat and mouse game with Uncle Sam where antitrust laws, regulatory statutes and taxes are concerned. In these areas, many businessmen attempt legal brinksmanship, violating the spirit of the law while barely observing the specifics. In the process they sometimes fall over the brink into clear violations of the law.

In the antitrust field, businessmen sometimes argue that they cannot avoid brinksmanship because of allegedly vague legal provisions. Henry Ford II discussed this subject in his notable Minneapolis address on business ethics:

Along with most businessmen, I believe that strong and effective antitrust law is essential, that it pre-

serves competition and over the years has benefitted all groups in our society, business included. But it is important that we understand that, in broad areas of action, the law is far from a clear guide . . .

Business must often act in a legal no man's land, moving on the advice of counsel—if indeed it is aware of the need for counsel—and not knowing whether at some future time it may be found in violation of antitrust or other laws.

Professor William A. Orton, writing in *Fortune* some years ago, struck the same note. He reported that although many laws deal with fairness, “if you seek from a study of these laws to ascertain the basic meaning of the word ‘fair,’ you are in for a course in applied jurisprudence that will reduce you to the mental condition of Pontius Pilate.”

Although many businessmen would agree with Mr. Ford and Professor Orton, this does not give them a license to stretch “fairness” beyond reasonable limits. I think this is a basic difficulty.

A businessman who wants to be ethical and law-abiding will understand that the law merely sets a minimum standard. He is under no compulsion to push his policies and practices to the ragged edge of the law. And if more businessmen would avoid claiming that last half inch before the brink, we would have a more competitive economy and fewer legal proceedings.

Of course, I would like to see an ideal antitrust law that would leave no one in the slightest doubt as to what

is legal and illegal. However, it is much easier to criticize these statutes as they stand than to put suggested improvements on paper. I think that businessmen who are quick to criticize could profit from reviewing the *Report of the Attorney General's National Committee to Study the Antitrust Laws*. This report was prepared by some sixty lawyers, law professors and economists, generally of conservative bent, during the Eisenhower administration. They studied the statutes for nineteen months at the direction of a national administration that, to the best of my knowledge, never was accused of being anti-business. Even so, this distinguished committee made no recommendations for giving the laws greater precision. The committee left these laws as they were.

Brinksmanship often is evident, also, in business attitudes toward other regulatory statutes, notably the Federal Trade Commission's broad mandate to curb "unfair methods of competition in commerce and unfair and deceptive acts or practices."

To cite but one of the major areas subject to FTC jurisdiction, advertising presents a continuing problem. Yet it is a problem that would become insignificant if business adopted a simple rule recited by Paul Rand Dixon, the FTC chairman, to the Advertising Federation of America:

You would be doing your industry and the American people a very great service if routinely and automatically your first appraisal of an advertising idea would concern its fairness and honesty. Then, if the

idea has even a suggestion of a bad smell, throw it away. You'll save time and trouble if you search for another idea that you—and we—don't have to worry about.

Mr. Dixon noted that there have been countless cases in which businessmen, forced by the government to revise their advertising, have done an even bigger volume of business after shifting to claims that could be supported. "We at the FTC often wonder," he said, "at the short-sightedness of a merchant who, with a good product to sell and a good reputation to maintain, will risk so much for that extra buck."

Taxes is another field in which "beating the government" becomes a popular game. Almost everyone will tell you that taxes are too high—local taxes, state taxes, federal taxes; all taxes. And some act as if it were perfectly okay to undertake individual campaigns to reduce taxes—their own—by chiseling. The number of supposedly responsible people who attempt tax evasion amazes me. And the gall which some display in this regard is absolutely incredible. For example, the Internal Revenue Service has found even millionaires who failed to file an income tax return.

Mortimer M. Caplin, our Commissioner of Internal Revenue, has said: "Our tax system rests not just on words, and rules, and systems of organization. It rests also on an educated citizenry, bred on the tradition of honesty, of responsibility, of each man and woman pulling his own weight for the good of the whole."

I suppose a lot of the brinksmanship we see, in the tax field and elsewhere, stems from a dislike for particular statutes. Some people seem to feel that if they don't like a law, they're not really doing wrong to ignore it or give it their own elastic interpretation. And so they subvert the law instead of using our democratic processes to seek its repeal or amendment.

But even when people agree with the law's scope and purpose, they may violate it anyway—for a quick profit. Examples of this sort can be found in connection with the export control program administered by the Department of Commerce.

I feel certain that no responsible businessman in the United States opposes our efforts, fully sanctioned by law, to keep strategic goods out of Communist hands. Nevertheless, we have uncovered cases in which businessmen have deliberately made illegal shipments of this kind because of greed.

In one instance, the vice president in charge of the western division of a large firm was told by subordinates that a customer in Western Europe intended to forward certain goods to East Germany and Hungary. The corporate official knew perfectly well that he would violate the law if he approved the shipment. However, the goods involved represented a large investment for his company, and were about to be loaded aboard ship. To salve his conscience, the vice president informed his European customer that the items could not be forwarded to Iron Curtain countries. The customer replied that it was too

late; commitments already had been made. The American businessman still made no move to halt the shipment.

On another occasion, the export manager of one of the largest firms in California was told by his European distributor that large orders for shipment of a strategic commodity to a certain European country far exceeded that country's requirements. Instead of making further inquiries, the export manager destroyed the letter containing this warning and went ahead with the shipments.

Another point that troubles me about business attitudes toward government involves the often-heard complaint that government is corrupt. On this score, I think Adlai Stevenson spoke for many of us who know government from the inside when he said, during his first campaign for the Presidency: "Public officials from top to bottom, from the high and the hazy to the low and the lazy, do not corrupt each other. We, the people, corrupt them. Behind every fix, there's a fixer; behind every bribe, there's a briber."

It is disturbing to me that in almost all recent instances of corruption in government, the man who offered a bribe, who wanted influence at the cost of honor, was a businessman. In the Department of Commerce, we recently had two incidents of this kind in as many months—a worrisome total in view of the many other agencies that deal with business, and the brief time span involved.

Some months ago, we were discussing on a completely confidential basis, and at a rather high level, certain matters affecting the maritime industry. We had a meeting of some of our staff and reached a basic policy decision.

Within two hours, a career employee met representatives of the industry at a Washington restaurant and revealed our decision. We fired the man as soon as we learned of his action and made it clear that anyone else disclosing confidential information would get similar treatment.

A few weeks later, I was discussing a situation affecting the petroleum industry with one of our top Commerce supervisors. The name of a particular oil company was mentioned—one which allegedly had been involved in bribery during the Eisenhower administration. Rather casually and blandly, the supervisor said to me, "Why, it's well know how these people operate; they haven't changed. One of them intimated an offer to me the other day if I would swing a decision their way."

In one of his first messages to Congress, President Kennedy dealt with "ethical conduct in government," saying:

. . . Public officials are not a group apart. They inevitably reflect the moral tone of the society in which they live. And if that moral tone is injured—by fixed athletic contests or television quiz shows—by widespread business conspiracies to fix prices—by collusion of businessmen and unions with organized crime—by cheating on expense accounts, by the ignoring of traffic laws, or by petty tax evasion—then the conduct of our government must be affected. Inevitably, the moral standards of a society influence the conduct of all who live within it—the governed and those who govern.

The ultimate answer to ethical problems in government is honest people in a good ethical environment. No web of statute or regulation, however intricately conceived, can hope to deal with the myriad possible challenges to a man's integrity or his devotion to the public interest. Nevertheless, formal regulation is required—regulation which can lay down clear guidelines of policy, punish venality and double-dealing, and set a general ethical tone for the conduct of public business.

Even with the new guidelines specified by the President, the major burden rested, as always in the area of morality, with the individual. The same situation prevails in business and other walks of life. Every man must appraise and tune up his own standards in order to improve the tone of the whole. As Henry Ford II put it in his Minneapolis speech: "I recognize that no amount of law, no amount of written codes of ethics or pious promises will take the place of a rigorous and unshakeable integrity in the total conduct and in the ideals of industrial management." Playing fair with your government is an important part of that total conduct.

BUSINESS AND THE NATIONAL INTEREST



At the height of Washington's evening rush hour on Tuesday, April 10, 1962, Roger M. Blough of the United States Steel Corporation made his way to the White House for a hastily-arranged meeting with President Kennedy. In seeking the appointment, the board chairman of U.S. Steel had given no hint of what he had in mind; only that he had something important to say to the President about steel. The meeting began at 5:45 p.m. with Mr. Blough handing the President a four-page mimeographed press release that began: "For the first time in nearly four years, United States Steel today announced an increase in the general level of its steel prices. This 'catch-up' adjustment, effective at 12:01 a.m. tomorrow, will raise the price of the company's steel

products by an average of about 3.5 per cent—or three-tenths of a cent per pound.”

This was the beginning of what the *New York Times* later headlined as “The Steel Crisis: a 72-Hour Drama With All-Star Cast and Plot of Many Surprises.” It was the beginning of an historic episode that deserves close and thoughtful study by all leaders of business, labor and government.

President Kennedy and most of his fellow citizens were surprised and shocked by U.S. Steel’s announcement. Just three days earlier, the United Steelworkers union and industry representatives had signed the last of a series of new labor contracts that increased fringe benefits by ten cents an hour. The agreements were unprecedented. First, the union abandoned its customary insistence on a wage increase. Second, the pacts were nailed down three months before the old contracts were due to expire.

To achieve these ends, President Kennedy and members of his administration had, for months, been urging both sides at the bargaining table to recognize the fact that the entire nation had an enormous stake in their decisions. Members of the administration repeatedly made these points:

—Steel historically has been a “bellwether” industry, an economic weather vane, because it produces the basic ingredients for many thousands of manufactured items. During the postwar years, the course of steel wages and steel prices has set a pattern for the entire economy. And because the halting of inflation is a widely-accepted national goal, it is of the utmost importance that the steel

industry operate on a non-inflationary basis. Otherwise, there can be no hope of ending the wage-price spiral in other sectors of the economy.

—To achieve a non-inflationary situation, any increases in labor costs must not exceed year-to-year increases in productivity; i.e., output per man-hour of labor. Furthermore, labor cannot fairly claim all the benefits of gains in productivity because these stem, in good measure, from investment in more efficient production facilities. Part of the pie, in justice, belongs to capital—to the companies and their stockholders.

—Ending inflation in steel is a goal far transcending the borders of the fifty states. The world watches to see whether the United States can stem the inflationary tide in this vital industry. Failure would mean that American goods would carry higher price tags in foreign markets and be that much harder to sell. At the same time, foreign-made items would be cheaper in relation to U.S. goods in this country. Exports would be hurt and imports would increase. The balance of payments deficit—the difference between the amount of money leaving the country and the lesser amount coming in—would increase. Foreigners would harvest an increasing flood of dollars which would be used to step up purchases of U.S. gold. As the nation's gold reserve dwindled, the moneymen of the world would lose faith in the stability of the dollar and an international monetary crisis could be the result.

—Steel management and steel labor have the signal opportunity to rise above purely selfish considerations and demonstrate that the free enterprise system can work to-

ward the solution of pressing national problems without the threat of compulsion.

Management and labor apparently accepted the administration's argument. And with the signing of the new contracts, all hands appeared ready to congratulate each other on contributing to price stability in the national interest. The President saluted the agreements as non-inflationary and many people publicly agreed. There seemed cause to hope that the wage-price spiral had been dealt a fatal blow.

Then Mr. Blough went to the White House to report that U.S. Steel was adding six dollars to the average rate of \$170 for a ton of steel. He did so when the ink was barely dry on the "non-inflationary" contracts.

Next morning, a prominent stockholder of U.S. Steel wrote Mr. Blough to express her "intense indignation and I may say outrage at your raising the price of steel at this time." The woman described it as "the most ill-timed, high-handed, unpatriotic act by a responsible industry that has been done in years." And she hastened to remind Mr. Blough that she was not a Kennedy Democrat—that she had been chairman of a national campaign committee that worked hard for the election of Richard M. Nixon in the 1960 Presidential election.

Bethlehem Steel, the industry's second largest producer, announced during the morning that it would match the increases ordered by U.S. Steel. A day earlier, after the annual stockholder's meeting, Bethlehem President Edward F. Martin had been quoted as telling newspaper reporters: "There shouldn't be any price rise. We shouldn't do anything to increase our costs if we are to survive."

Bethlehem subsequently claimed Mr. Martin had been misquoted.

Other major steel producers announced higher prices during the day. Joining the parade were Republic, Jones and Laughlin, Youngstown and Wheeling. Inland, Kaiser and Colorado Fuel & Iron said they were studying the situation.

U.S. Steel argued that higher selling prices were necessary in order to widen profit margins and gain more cash for the financing of new machinery. The company said it was caught in a profits squeeze and implied that rising wage costs were the principal villain. Yet the price increase came at a time when, according to government figures, productivity was rising faster than labor costs. And labor costs per unit of steel output were essentially the same as in 1958, when the industry last raised its prices.

President Kennedy had a news conference scheduled for the afternoon, and he worked through the day with his assistants on a statement that would express his own dismay and concern at the action of the steel industry leaders. It was a memorable statement, delivered with what the *Times* described as "cold fury" before live television cameras.

The price increase, said the President, was a "wholly unjustifiable and irresponsible defiance of the public interest." He said the industry officials had shown "utter contempt" for their fellow citizens and he concluded with this significant statement:

"Price and wage decisions in this country, except for

a very limited restriction in the case of monopolies and national emergency strikes, are and ought to be freely and privately made, but the American people have a right to expect in return for that freedom, a higher sense of business responsibility than has been shown in the last two days."

A round of official investigations already was underway or promised. Senator Estes Kefauver and Representative Emanuel Celler announced that they favored inquiries by the Senate and House Antitrust Subcommittees. The Department of Justice and the Federal Trade Commission began their own investigations, to determine whether illegal collusion lay behind the stampede to increase and whether U.S. Steel had monopoly power in the industry.

I had long-scheduled engagements in Philadelphia and New York on Thursday, April 12, which was the day after the President's news conference. I met with reporters in both cities, answered questions and made this statement:

Ten days ago, I congratulated both the steel industry and the steel union for their statesmanship in reaching an early agreement that appeared to serve the public interest. It was my feeling that a major obstacle to further economic recovery had been removed.

The price increase announcements by U.S. Steel and other major steel companies change this picture completely. Tuesday evening a handful of men said,

in effect, that Steel comes first, the United States of America second.

I am shocked and disappointed at this totally unexpected development. We have in this country, and I hope we will always have, a free economy. Subject to antitrust laws and public services requiring regulation, any firm or industry is free to set prices as it sees fit. It is free to make mistakes, and I believe the steel industry's mistake is a tragic one. Its action is a disservice to the country and to the business community as a whole.

I looked upon the price increase as an anti-business move by a corporation that should have known better. I had three reasons for taking this position, and I outlined them in my statement:

1. The American people might be "so antagonized by this development that all business might lose favor in the public eye."

2. It might initiate "a round of inflation which can only be harmful to business generally, especially small business."

3. It would "give encouragement to those who contend that it is not possible to get responsible action on a voluntary basis, and that only compulsion and regulation will work."

Obviously, the action of steel industry leaders was not the way to stem inflation. It was not the way to build a stable economy. On the contrary, it was the way to reduce demand—and prosperity—at home while inviting in-

creased competition from foreign goods and substitute materials both here and in overseas markets. It was the way to foment new labor strife. It was the way to undermine the dollar.

These were the long-run factors that U.S. Steel ignored in favor of a short-run gain. But the President of the United States could not ignore these factors. He felt compelled to resist Big Steel's decision with the resources at his command. And he had no power of compulsion.

As the *New York Times* pointed out in its review of the steel "drama," the administration's reaction to the price increases involved four principal areas of action. First, there was a rallying of public opinion in support of the administration stand, with the President taking the lead at his news conference. Second, appropriate agencies began investigations of possible antitrust violations. Third, government officials contacted steel users, who would be the first to feel the price pinch, seeking their support for a rollback of the increases. Fourth, there was direct contact with steel producers. Here are excerpts from the *Times* account of this fourth phase:

Drs. Heller and Gordon (Walter Heller and Kermit Gordon * of the Council of Economic Advisers), and possibly some of the other economists, had argued that the principal thrust of the administration's effort should be to convince one or two significant producers to hold out. In a market such as steel

* Mr. Gordon subsequently was appointed Director of the Budget Bureau.

they said, the high-priced sellers would have to come down if the others did not go up.

This suggested a line of strategy that probably proved decisive.

As one member of the Big Twelve after another raised prices, only Armco, Inland, Kaiser, C F & I and McLouth were holding the line. These five holdouts represented 14 per cent of total industry capacity, or 17 per cent of the capacity of the Big Twelve.

Everything pointed to Inland as the key to the situation . . .

At 7:45 that Wednesday morning, Philip D. Block Jr., vice chairman of Inland, was called to the telephone in his apartment at 1540 North Lake Shore Drive in Chicago.

"Hello, P. D.," said Edward Gudeman, Under Secretary of Commerce, a former schoolmate and friend of Mr. Block's, calling from Washington. "What do you think of this price increase of United States Steel's?"

Mr. Block said he had been surprised.

"I didn't ask P. D. what Inland might do," said Mr. Gudeman several days later. "I didn't want them to feel that the administration was putting them on the spot. I just wanted him to know how we felt and to ask his consideration."

Inland officials said they had not been coaxed or threatened by any of the officials who called them.

The approach, which seems to have developed

rather spontaneously in many of the calls that were made to businessmen, was to ask their opinion, state the government's viewpoint, and let it go at that.

On Thursday, two days after the U.S. Steel announcement, Secretary of Labor Arthur Goldberg* and Mr. Clark Clifford, Washington attorney and former counsel to President Truman, flew to New York to discuss the situation with Mr. Blough. Meanwhile, more phone calls were being made to officials of Inland and the other hold-out companies.

The first big break in the impasse came on Friday morning—in Japan. Joseph L. Block, Inland's chairman who was visiting Kyoto, gave the following announcement to Keyes Beech, Far Eastern correspondent for the *Chicago Daily News*:

"We do not feel that an advance in steel prices at this time would be in the national interest."

Kaiser made a similar announcement at mid-day and Armco decided to hold the price line but made no announcement. The tide was definitely turning, and it reached flood stage a few hours later when word came that Bethlehem was rescinding its price increase. This action by the Number Two producer erased all doubt about the outcome. U.S. Steel had no choice but to back down. It did so shortly after 5 p.m. The 72-hour drama was at an end. But discussion of its implications will continue as long as Americans are interested in the economic

* Mr. Goldberg is now an Associate Justice of the Supreme Court.

history of their country. And this discussion inevitably will involve the ethical implications of the controversy.

I was convinced at the time, and still feel very strongly, that the behavior of the top officials of U.S. Steel was completely wrong under the existing conditions. To put it bluntly, they misled the President and the public by withholding information or leaving the impression they were going along with the anti-inflation program outlined by the President.

During the many weeks of negotiations with the steel union, the corporation at no time informed the union or the government that it would increase prices even if the workers accepted a modest settlement. Mr. Blough had repeated opportunities to make this disclosure to the President, to Secretary Goldberg, to myself, or to union officials. He chose to remain silent. In my judgment, this silence was not honest for the following reasons:

Mr. Blough must have known that the government had only one purpose in urging the union to accept a modest settlement: it wanted to forestall an increase in steel prices. In fact, this was the chief justification for government interest in the negotiations.

By keeping silent, Mr. Blough misled the government so that, in effect, the steel industry could reap the benefits of official efforts to moderate the union's contract demands.

The episode also had another ethical dimension involving the responsibility of the businessman to do right by his country as well as his company. And I am not speaking of mere obedience to the law. I refer to a proper con-

cern for the best interests of the nation as these relate to major economic and national security questions. I believe it is the duty of business to conduct its affairs in a manner that does not deliberately thwart the achievement of broadly-accepted national goals.

Mr. Blough, I feel sure, was conscious—or at least self-conscious—of this broad responsibility. Otherwise he would not have called on the President with news of the price increase. By seeking the appointment, Mr. Blough tacitly acknowledged that his company's action was not an isolated business decision but one involving the interests of the entire nation. And because U.S. Steel allowed selfish short range considerations to override these broader interests, its efforts did not have popular support.

As President Kennedy marshalled his forces to resist the price increase, he was not motivated by a petty desire for vengeance. His purpose was to preserve and promote the kind of economy in which sound growth, and sound profits would be possible—an economy able to meet increased competition from abroad; an economy ready to absorb the nation's expanding labor force. In short, it was his aim to help business prosper—even if businessmen were less than unanimous in expressing their appreciation. Said Mr. Kennedy a few weeks later, in addressing the United Auto Workers convention:

"I believe it is the business of the President of the United States to concern himself with the general welfare and the public interest—and if the people feel that

it is not, then they should secure the services of a new President.”

Time will tell whether this “steel incident” was of great importance or influence in the economy or whether it helped build up greater criticism on the part of the business community toward what the businessmen referred to frequently as an “anti-business administration.” Certainly the incident created great public discussion which was in itself a good thing.

However, what we are talking about here is ethical behavior. Did the steel leaders or some of them mislead the President and the public in what they did and the way they did it? Further, did they fail to take into consideration the national interest as opposed to their narrow, selfish interest?

To hear the subsequent criticisms from many businessmen, one might have concluded that the steel price crisis marked the first time a President ever took a firm stand against private interests in the name of the national interest. Yet a reading of the history books will show that President Kennedy’s actions were mild as milk when contrasted with those of certain of his predecessors.

One of the most disturbing accounts I have read of government-industry controversy involving the national interest is given in Bernard Baruch’s autobiography, *The Public Years*. As director of the raw materials section of the War Industries Board in 1917-18, Mr. Baruch had his own troubles with the steel industry—and the firm backing of a determined President. Mr. Baruch writes:

Given the businessman's conviction of the sanctity of his right to determine the price at which he would sell his goods, it was no wonder that prices were one of the most troublesome subjects with which we had to deal. We had many conflicts over this issue, the most memorable with the steel producers.*

Mr. Baruch went on to say that the steel people, capitalizing on a supply-demand situation gone haywire under wartime stresses, pushed their prices to exorbitant levels: basic pig iron from \$12.59 a ton in 1915 to \$52.50 in 1917; steel billets from \$19.50 a ton to \$95, and structural steel shapes from \$1.20 a hundredweight to \$6.20.

Mr. Baruch's WIB had authority only to seek negotiated agreements on prices of raw materials in short supply. But despite its very limited powers, the agency summoned sixty-five leading steel executives to Washington in September 1917, hoping to draw up detailed price schedules for iron, steel and coke.

After acrimonious debate, the steel bosses agreed to reduce prices on purchases by the government. But they insisted on maintaining grossly inflated prices on items ordered by the public and by the nation's allies. Because this position was in direct conflict with the policy of President Wilson, Mr. Baruch handed to Judge Elbert H. Gary, the head of U.S. Steel, a letter in which the President agreed to seize that company or any other on the recommendation of the WIB.

* Bernard M. Baruch, *Baruch: The Public Years* (New York: Holt, Rinehart and Winston, 1960) p. 63.

Unimpressed, Gary retorted that "you haven't got anybody to run the Steel Company."

"Oh yes I have, Judge," replied Mr. Baruch. "... we'll get a second lieutenant or somebody to run it. But that won't trouble you very much. If those mill towns find out why we've taken over, they'll present you with your mills brick by brick."

Big Steel capitulated shortly thereafter, agreeing to cut prices by roughly fifty per cent. Even at that, Mr. Baruch reports, profits remained excessive.

Mr. Baruch also had difficulties with the auto producers, after learning of their failure to observe a voluntary agreement to cut civilian output by two-thirds. Mr. Baruch and the WIB summoned the industry leaders and announced that three-fourths of their facilities henceforth would be required for war work. The producers, led by John Dodge and the elder Henry Ford, resisted. They tartly informed the WIB that they had stockpiled enough steel and coal to meet their needs and would proceed in spite of the agency's ultimatum.

Reaching for a telephone, Mr. Baruch called William G. McAdoo at the Railroad Administration: "Mac, I want you to take down the names of the following factories, and I want you to stop every wheel going in and going out." Mr. Baruch read off the names of Dodge, General Motors, Ford and the others, then called Secretary of War Newton D. Baker. "Mr. Secretary," he said, "I would like you to issue an order to commandeer all the steel in the following yards." And he repeated the

list. A final call to the Fuel Administrator was enough to arrange for seizure of the industry's coal supplies.

"I quit," said the boss of G.M. and the others followed his lead.

Recalling these incidents of forty-five years ago, Mr. Baruch makes a comment applicable in our own time:

"Ford, Gary and Dodge typified the problem which WIB faced in educating American businessmen to the new facts of life. . . . Their pride in the achievements of industry and their mistrust of government made it difficult for them to put national interest above unenlightened self-interest." *

Because these words remain timely, I would urge all businessmen to evaluate their own concern for the national interest as they consider problems of ethical conduct. It is the very least one can do for his country.

* *Ibid.*, p. 68.

BUSINESS AND THE PUBLIC



The American consumer in a real sense rules a kingdom that boasts more riches and luxuries than the fabled empires of history. Even the poorest of us enjoy appurtenances that would have been priceless in an earlier age. We are kings, each of us. Our smallest wants, even our subconscious desires, are catered to on a scale unknown to the great monarchs of antiquity.

As kings at the retail or consumer purchasing level, we hold the power of life and death over almost every business enterprise from the corner shoeshine parlor to the General Motors Corporation. These in a sense are our subjects and they must merit our good will and patronage or face extinction. We consumer-kings account for two dollars out of every three that get spent in the U.S. economy and we cannot be taken lightly.

The smart businessman appreciates the power of consumers and does his utmost to earn our good will and patronage. He offers a good product at an honest price. And he conducts his business in accordance with the best ethical principles. In most cases, he is ethical because it is his nature to want to do the right thing. Sometimes he is ethical because he has a well-developed instinct for self-preservation and knows the perils of unethical behavior.

Not all businessmen fit this picture, however. There are those who think only of the present and try to grab all they can get in the shortest possible time. They either ignore morality or try to straddle the fence, being ethical when ethics come cheap and cutting corners when proper conduct might cost them an easy profit.

They seem to forget that consumers tend to be influenced more by those who do wrong than by those who do right. Virtue seldom wins applause but misconduct is denounced from the rooftops. Perhaps this seems an injustice but I'm not certain that it is. When a customer is treated fairly, he gets no more than he expects and deserves; why should he applaud? But when he is wronged, he has every right to express a sense of outrage.

It is the businessman's responsibility to give the consumer what he expects and deserves, not only because it is good business but because it is the right thing to do; it represents the fulfillment of the businessman's duty as a human being in an organized society. If the businessman fails in this duty, he not only hurts himself but his wrong action often can cause unjust reflection on all his colleagues—simply because the customer will remember his

misdeed long after good service and proper treatment are forgotten.

Some years ago, two major manufacturers of automobiles brought out new models that contained serious engineering defects. One made good on all the "lemons" sold while the other did not. And I think you can guess what happened subsequently. The firm that stood behind its product enjoyed increased good will and sales; the other went into a sales and profits tailspin.

This was a clear case of the consumer-king rewarding responsible conduct and punishing the irresponsible. I'm sure you have seen the same thing happen in your own community. Isn't it true that the neighborhood retailers who enjoy the greatest success generally are those who have a reputation for honest dealing? And haven't you seen more than one corner-cutter fold up and go out of business? True, the corner-cutter may get away with his tricks for a while—and at the expense of responsible competitors—but eventually his trickery will be his undoing.

The responsibility for maintaining high ethical standards in dealings with the public places a special burden on the small businessman. He is the one who deals most often, and at closest range, with the consumer-king. When we think of business, we may think of General Motors, General Electric, General Telephone and General Dynamics. But when we think of businessmen, we are apt to think of the neighbor who sells us automobiles, the druggist who fills our prescriptions and the appliance dealer who services our television set. The great bulk of private businesses are small, community enterprises; the

ones we deal with day after day. And if they cheat us in any way, we tend to damn all businessmen—at least for the moment.

The Business Ethics Advisory Council has received a number of letters from the public complaining about a variety of unfair business practices. Many of these involve small firms. One complaint was from an auto mechanic who took the time and trouble to write that his dealer-employer had instructed him to waste no time servicing cars received from the factory—just make sure they run. It was the dealer's philosophy that there was no point in spending money to remedy a defect that the buyer might not detect.

I tip my hat to this mechanic for translating his sense of outrage into action. And he got action. Although the Ethics Council is not set up to process complaints, in this particular case the mechanic's report was forwarded to the manufacturer of the auto involved. I believe all of us should complain in the most effective manner possible about situations of this sort that come to our attention. If a franchised dealer treats us badly and we can't get satisfaction, we can complain to the manufacturer who supplies him. We can inform our local Better Business Bureau, so it can put pressure on the offender to mend his ways or at least warn others of his tactics. If we believe federal law is being violated, we can write to the Federal Trade Commission or some other appropriate agency. If we don't do these things, we let the law of the jungle take over our consumer kingdom, and our crown is threatened.

Not all complaints will bear fruit, of course. One man who wrote to the Ethics Council told of being whipsawed between the seller and the manufacturer of a baby carriage, each blaming the other for a defect found in the carriage and disavowing his own liability. The dealer apparently wasn't concerned about his reputation in the community, and the manufacturer showed no regard for the good name of his product. It was businessman against businessman with the consumer caught in the middle. This cycle could go on indefinitely; it is the responsibility of one or both parties to break the cycle and protect the consumer.

Situations of this kind weaken the keystone of our whole business system—mutual confidence. The seller in any business transaction shows his faith in the buyer by extending credit, guaranties and refunds. If the buyer was unworthy of this trust, the seller would suffer monumental losses. The customer, in turn, shows his trust by accepting performance claims, published weights, guaranties and labels at face value.

And I might emphasize that errant businessmen are not solely responsible for incidents that undermine mutual confidence. In truth, many consumers are unworthy of the trust placed in them by businessmen. This became apparent to the first Marshall Field many decades ago, after he inaugurated the policy of permitting customers of his department store to return unsatisfactory merchandise—and no questions asked. Mr. Field discovered that even well-heeled customers occasionally would "buy" a fine lace tablecloth, then return it after putting it to use

at a dinner party. To protect himself, he was forced to amend his policy by refusing to accept returned merchandise stripped of their labels.

Much of the old philosophy of "let the buyer beware" has been effectively dissipated by the discipline of businessmen in protecting their labels. Even so, labeling and packaging remain a persistent problem area. In the words of Senator Philip A. Hart of Michigan, "Day by day, shoppers pay more and more for less and less in bigger containers bearing smaller and smaller type."

You may recall the seizure in 1962 of several thousand jars of Maxwell House instant coffee by the Food and Drug Administration. The ten-ounce jars were labeled "Giant Economy Size," but a major supermarket chain had priced them so they cost more per ounce than the regular six-ounce size. Even though it might seem that the food chain was wholly at fault here, General Foods had decided—even before the seizure was made—that it would drop the economy claim. The manufacturer reasoned that since it had no control over retail prices, it could not honestly assure consumers that any particular size container would offer economy.

Packaging and labeling, particularly in the food field, has become one of the arts in our modern society—an art that has proven a mixed blessing to consumers. While foods are more sanitary and items that formerly required much preparation are available in ready-to-eat or ready-to-heat form, supermarket shelves are laden—to quote Congresswoman Martha Griffiths—with "superlarge boxes, two thirds full; weight descriptions in minuscule

fractions; and a multitude of other subtle and confusing snares."

Finding a box or jar labeled "regular" size is becoming increasingly difficult and "small" sizes seem to have vanished long ago. In this era of merchandising superlatives, one manufacturer of shaving cream even feels justified in billing a 7½-ounce jar as "mammoth." The once-familiar announcement, "One Pound Net Weight," is giving way rapidly to "One Full Pound"—a semantic conundrum that must raise many questions in the minds of consumers.

To attract the eye of the consumer-king, distributors of ready-to-eat cereals are adopting tall, broad and ultra-thin packages designed to display the largest possible labels and give the impression of a larger box. This not only is deceptive but, when you open these boxes, they frequently tip over and dump their contents in the kitchen sink.

Every shopper is familiar now with the optical-illusion package, can or jar that promises more than it delivers. The latest gimmick is to draw a three-dimensional box on the face of a package, so a quick glance will make the package seem about half an inch fatter than it actually is.

And anyone who wants to compare prices is quickly involved in slide rule computations. How, for instance, do you compare the price of a 3.3-ounce package with that of a 3¾-ounce competitor? I wonder what ever happened to even weights?

Another phenomenon is the shrinking package with the stable price. Marketing experts argue that customers

would rather receive less than pay more. Perhaps so, but it also is the most subtle way to boost prices. And it can be deceptive. A Senate Antitrust and Monopoly Subcommittee was told, for example, that one baby food processor trimmed his applesauce jars by a mere quarter of an ounce. Yet a mother accustomed to feeding her child two jars a day could unwittingly reduce her infant's diet.

The stampede toward organized confusion in the name of salesmanship already has led to increasing demands for new federal restrictions on packaging. Inevitably, these demands eventually will be reflected in law if some businessmen persist in peddling packaged trickery rather than packaged truth.

A need for certain new statutes already seems apparent. To help bring greater order and safety to the fast-growing drug field, President Kennedy advocated in his 1962 Consumer Protection Message that marketing of potentially ineffective and possibly harmful drugs be curbed. "It is time," he declared, "to give American men, women and children the same protection we have been giving hogs, sheep and cattle since 1913, under an act forbidding the marketing of worthless serums and other drugs for the treatment of these animals."

Of course, the ethical businessman doesn't need such laws. He will give careful thought to every packaging and labeling decision to make certain there is no deliberate deception or attempt to confuse, and that claims made on his labels are justified. He will give these considerations equal weight with sales appeal. For he realizes that an honest package and label can be just as attractive

and appealing as one designed to deceive; what's more, it will hold the public's favor long after the deceiver has been cast aside as untrustworthy.

One of the most publicized cases in recent years to hinge on questionable product claims involved a battery additive called ADX-2. The promoter of ADX-2 complained to one of my predecessors that the Department's National Bureau of Standards had ruled unjustly that his product did not increase the life of storage batteries. To counter the Bureau's scientific evidence, the manufacturer offered testimonials from satisfied users of the product. And no one claimed the additive was harmful in any way.

The Secretary took the promoter's side in the ensuing controversy and nearly fired the distinguished director of the Bureau of Standards. Appearing before the Senate Committee on Small Business, the Secretary complained that Bureau scientists "discount entirely the play of the market place." He added: "It can generally be said that there are no complaints but, on the contrary, many testimonials to the fact that the product is good and has saved the users money. As a practical man, I do not see why a product should be denied an opportunity in the market place." In other words, the public should be free to judge for itself, regardless of scientific evidence that advertising claims made for a product were untrue.

Ultimately, it was decided that the product should meet its claims—which it didn't—or tone down its advertising. But for several years, it was a case of "let the buyer beware"—a philosophy that has long since been ethically and/or legally outmoded in most sectors of the

economy. Still, the buyer does have to beware in too many instances.

A good illustration is the fine print in certain insurance contracts. Millions of us own such policies and never read the detailed legal language. Fortunately, the great majority of these policies are entirely proper—but not all.

A friend once lost several suitcases during an airline trip and promptly claimed reimbursement for the loss under an “extended coverage” clause in one of his policies. His insurance agent regretfully reported that the extended coverage, as phrased in this particular contract, was a sham. It applied only to the most unusual, never-to-happen events like, to be facetious, the mysterious disappearance of a wrist watch while climbing Mount Everest in a monsoon. The agent agreed the clause was blatantly misleading. But he said he had been rebuffed in repeated efforts to get the company either to offer genuine extended coverage or leave out all reference to it. Of course, one of the hidden questions is why didn’t the agent inform my friend of the limitations on the extended coverage when he sold the policy?

Fortunately, many businessmen are not content to merely do what is legally required—to let the fine print speak for itself, if anyone reads it. Instead, they make a real effort to do everything they consider right as well as legal. This is the way to build an ethical society; this is the way to encourage ethical behavior on the part of each of us as individuals.

Those who observe only the legal minimums, who meet their social responsibilities only under the lash of

compulsion, often do physical as well as spiritual damage. Certain aspects of the conservation problem are examples.

Some time ago, a friend and I went on a fishing trip and came to a stream that once had been clean and inviting. Now it was dark and polluted. Nearby was a mountain-side of scrub growth where timber had been cut forty or fifty years before and never replaced.

My friend and I stopped to look at the barren mountain and the stream polluted by industrial waste and municipal sewage. And we asked ourselves why these horrors exist. Why do we do these things, as individuals, as corporations, as municipalities; knowing that we are destroying some of nature's most precious gifts and realizing that some day we must pay a price for our folly? Why do we do these things and then complain, as some do in my own state, because laws are enacted that require businesses and communities to spend large sums cleaning up streams and putting in waste disposal and sewage systems? Why do we, who are responsible, complain because the federal government must spend many millions of dollars to restore the countryside to its natural grandeur?

Are we aware of our collective responsibilities in these matters? Do we take them seriously? Can't we make a corporate and governmental conscience as responsive as an individual conscience? Well, individuals make up our corporations and governments. And if we have enough individuals with a conscience, then we will develop corporations and governments with that same conscience.

The development of a collective conscience has been

the concern of leaders of many industries for several decades. One that has shown this concern, and properly so, because of its enormous impact on the public, is advertising. It was the predecessor organization of the Advertising Federation of America that established the Better Business Bureaus in 1912. And, in 1962, the American Association of Advertising Agencies took another step forward by producing an ethical code to replace one written before the advent of television. Member agencies must subscribe to the code, pledging that they will not "knowingly produce advertising which contains false or misleading statements or exaggerations, visual or verbal." Furthermore, a code violator is liable, for the first time, to expulsion from the trade association.

Chairman Paul Rand Dixon of the FTC, in an address to the Advertising Federation, told his listeners that their twelve-billion-dollar industry "puts new products on the market and keeps good ones there; it makes jobs and profits and pays the tab for more public enlightenment than the detractors of advertising could ever hope to provide." But he emphasized the need for self-restraint and self-policing, arguing that:

"All advertising dollars buy less when any appreciable amount of advertising becomes suspect. Let a man eat a few bad oysters, and he will lose his appetite not just for bad oysters but for all oysters."

Yet despite industry soul-searching and code-making, advertising continues to produce some bad oysters, as Mr. Dixon can attest.

"Too often," he has said, "advertisers who are reaping

a financial harvest from a misleading claim observe, with no little satisfaction, that one of their competitors has been ordered by the FTC to stop a comparable claim. Do they then stop their own claims? Are they frightened by the handwriting on the wall? Not very much. Some seem quite content to continue milking the claim until they, too, are forced to stop." And by that time, he added, they probably are ready to launch a new campaign anyway.

The antitrust laws represent still another area in which business must be careful to meet its obligations to the public. Price-fixing and practices in restraint of trade are illegal, and every businessman knows it. Still, these practices persist. I clearly recall being on the fringes of this kind of operation during the 1920's, when I was secretary to the manager of a group of textile mills.

My boss in the early days, often described locally as one who "could strut sitting down," used to travel to New York every autumn to discuss with "competitors" the pricing of what should have been a very competitive product. At these meetings, I have been told, the leading producer would announce his price for the coming year. It was clearly understood that everyone else would follow suit. The arrangement was very informal and there was no specific agreement; certainly there was nothing on paper that government investigators might uncover. The result, I have no doubt, was a price structure higher than normal competition would have allowed. The consumer was the loser. And so were the producers because they felt so insulated from competition that they ignored

technological improvements and other opportunities to advance efficiency and reduce costs. I suspect it was more than coincidental that the firm which took the lead in these arrangements went bankrupt; it probably wasn't fit to survive in a competitive business society.

Business operations touch the public in so many ways that it would be impossible to catalog all the areas in which thought must be given to ethical considerations. Also, a list that might seem complete today could soon become incomplete. New problem areas sometimes come to the fore with little warning.

In this category are the ethical problems that have faced many lunch counter and restaurant operators in the Southern states since the "sit-in" demonstrations began in Greensboro, North Carolina, during my tenure as governor.

Some of the first demonstrations were in large department stores. Negro students from Greensboro's A. & T. College, accompanied sometimes by white students from neighboring institutions, would sit in a quiet and orderly way at the lunch counters in these stores and await service. The stores took the position that, as private enterprises, they had a legal right to refuse service to anyone who entered their private property. However, they were in an awkward situation from the start. One store, for instance, had seventy-five departments, only one of which served food. The store was perfectly willing—even eager—to have Negro customers in seventy-four departments but it drew a line at the seventy-fifth. And the situation was further complicated by the fact that these

large stores, in many cases, were affiliated with chains directed from Northern cities where other branches had no hesitation about feeding members of any race.

Shortly after the first demonstrations, there was a series of discussions with top officials of some national variety stores that were involved. It was the aim to help resolve the problem without disorder and without stirring rancor or hate.

Prominent people in several large retail chains expressed the conviction that the Negro was justified in his demands for service. They further stated that their companies were in an untenable position in denying service in one department while urging patronage of others. But they said they would observe local customs and would not pioneer unless everybody else in the community agreed to do likewise. They didn't realize that others were saying that the national chains were in the best position to demonstrate initiative and leadership and that, if they would accept the opportunity, there would be little, if any, trouble. Eventually it worked out that way in many communities—but only after the mettle of a lot of businessmen had been tested.

Problems of this sort may be with us for some time. We faced one in the Department of Commerce in the spring of 1962. The United States Travel Service, a Commerce agency, sponsored a series of regional travel conferences, one in Charlotte, North Carolina. After it was announced that the Charlotte meeting would be held in a hotel that denied service to Negroes, a local Negro

doctor demanded that members of his race be accorded the same treatment as other conference participants.

The hotel was owned by some people in New York City, who were asked by the mayor of Charlotte and federal authorities to work out the problem on an equitable basis. The hotel owners refused to do anything that might depart from local custom and didn't even want to discuss other alternatives. They said they were in Charlotte to make money and that concessions to Negroes would cost them business. It apparently did not occur to them to consider their broader social responsibilities in a situation that should have prompted careful, deliberate thinking and planning.

The federal government had not made arrangements for conference accommodations; these were handled by a local organization. On less than twelve hours' notice, therefore, we had to move the meeting away from the hotel and, with the fullest cooperation of city officials, we transferred it to Charlotte's fine new municipal auditorium. Lunch was served there by caterers. The Negro doctor was invited to attend, and he did.

One other broad topic that I feel deserves a place in any discussion of business and the public is business relations with stockholders. Some may argue that a stockholder is part of the corporate family and therefore not to be considered in the same breath with the general public. I believe, however, that share ownership of most large firms is so widely dispersed that hired managers are dealing with what amounts to a specialized public. And they have very definite obligations toward their stock-

holder-bosses. Failure to meet these obligations can be disastrous, as the victims of a number of proxy contests can attest. Also, stockholders often are customers—and a dissatisfied customer isn't apt to long remain in that category. He will become someone else's customer.

In discussing stockholder relations, *Business Week* has said: "Where management sees the stockholder clearly as the owner of the company, its communications, ideally, will be built around the principle of 'full, frank and factual disclosure' of any information that can have a bearing on the owners' investment." This principle is embodied in the securities laws and, in most instances, it is observed.

Beyond the obligation of full disclosure, corporate managers have a responsibility to act, as individuals, in a manner consistent with the best interests of shareholders. For example, it would be unethical to capitalize on favorable inside information by buying company stock for a quick profit. In such a case, you would be buying from a stockholder who presumably would not sell you the shares if he had access to the same information.

Events of recent years also have made it abundantly clear that the corporate official must scrupulously avoid all conflicts of interest that might sway his judgment to the detriment of the business he serves.

While I was still a young mill manager, making a salary of about \$3,000 a year, I invested a small sum in an oil and gasoline distributing business, in partnership with two other men who handled day-to-day operations. The enterprise started off in an extremely modest way but,

within a few years, was doing an annual business of about one million dollars.

The purchasing department of our mills bought lubricants and other products of the kind distributed by my sideline enterprise. Because of this, I told the purchasing agent not to buy any of these items from our partnership unless they were at least equal to competing products and unless the price was completely competitive. One of my partners was absolutely mystified and quite angry because I refused to have the mills give preference to our products.

In retrospect, I wonder if it was right to let the mills do any business with a firm in which I was interested, even though my interest was fully disclosed and the sales were fully competitive. I have to conclude that it would have been better had I adopted a tougher policy.

This reminds me of the abrupt resignation of the president of the Prudential Insurance Company of America a few years ago. This man, Carroll Shanks, had private interests that, potentially, could have conflicted with his responsibilities to the insurance company. Mr. Shanks' successor outlined a more exacting company policy on these matters in a letter to key employees:

I am sure every officer and employee of the Prudential is aware of the need to avoid personal situations which might be construed as conflicts of interest—that is, any personal interest outside the company which could make it personally advantageous for him to place his own interest above his obligation

to the Prudential. Such a conflict can exist whether or not the employee actually does anything wrong—opportunity and temptation are enough. No officer or employee should ever place himself in such a position.

When I went into public service in North Carolina, I examined all my business connections that might even remotely suggest a "conflict of interests." As a result, I resigned as a director of a large textile company that owned one or two plants in the state, but which had most of its holdings in other parts of the country. As a director, I received five thousand dollars a year plus expenses, and for not more than twenty or thirty hours work a year. It was a pleasant and profitable diversion. But I did not want anyone to be able to suggest that, as a public official, I might grant the firm any favors. Nor did I want my motives to be questioned if the company ever had any labor troubles in the state.

The president of the firm protested strongly against my decision and, without telling me, went to see the state's attorney general. Several weeks later, the president came to me and announced, with some little glee, that he had a legal opinion from the attorney general that there was no reason why I shouldn't continue my service as a director.

"That may be all right, legally," I told my friend, "but the attorney general does not control my conscience."

On the same subject, I think the most unusual case of conflicting interests of which I have personal knowledge

involved the chief administrative officer of a regional housing authority in North Carolina. One project operated by the agency had been built by the federal government, which held a long-term lease on the underlying land. When it became apparent, early in the 1950's, that the federal government would be disposing of interests in such projects, the agency chief purchased title to the land for less than forty thousand dollars. Some time later, the buildings and utilities were transferred from the federal government to the regional housing authority. At this point, the housing official claimed he had title to the buildings and utilities as well as the land. And he offered to sell the "package" to the housing authority, of which he still was a paid employee, for more than one million dollars.

A civil suit to decide the man's claim to the entire property, and his right—or not—to sell the holdings to the agency that employed him, has been pending in the courts for several years. Obviously, I do not know what the outcome will be. But my own feelings about his actions, from both a moral and legal standpoint, were made evident when I refused, as governor, to ratify a "compromise" plan that would have allowed him to sell the property to the regional agency for roughly half a million dollars. From either a moral or legal standpoint, I couldn't see that it made any difference whether his profit was a million dollars or half a million—or only one dollar, for that matter.

Some people of my acquaintance believe the housing official was technically correct in his conduct. Moreover,

they admire his "smartness" in figuring out a deal that may yet produce a million-dollar profit. These are the kind of people that we consumer-kings must watch out for, whether they are businessmen or public officials. And if we happen to be businessmen, we must not let our thinking slip into similar channels or we jeopardize the vital link in our free enterprise system—the point of contact between business and the public.

THE ETHICS OF FAIR COMPETITION



A Texan with the improbable name of Billie Sol Estes was much in the news in 1962 and the public paid great attention to every new revelation about his free-wheeling ways. They were particularly interested in Mr. Billie Sol's dealings with the federal government. Very little notice was paid the simple fact that, as a businessman, Mr. Estes was an unfair competitor.

Long before Mr. Estes was known to many people outside his home town of Pecos, he got into the business of distributing anhydrous ammonia, a cheap nitrogen fertilizer used in largescale farming. The fertilizer was supplied by Commercial Solvents Corporation, a New York chemical manufacturer which soon found that Mr. Estes was a good customer—but didn't pay his bills.

Within a few years, Mr. Estes owed the corporation more than half a million dollars. But he managed to extricate himself from this predicament—temporarily—and set his heart on becoming an even better customer.

Of course, before he could become a better customer, Mr. Estes had to find buyers for more fertilizer. And the farmers of West Texas had many alternate sources of supply. Other companies manufactured anhydrous ammonia and many distributors were peddling it in the area. It was a very competitive business. The solution that struck Mr. Estes was to run the competition out of business. He did this by resorting to the law of the jungle. Here is how *Time* magazine reported the story:

The wholesale price of anhydrous ammonia was \$90 a ton, and a local distributor had to charge more than \$100 a ton to break even. So it stirred up some commotion when Estes, shortly after setting up his deal with Commercial Solvents (to finance his debt), started selling the stuff for \$60 a ton. In some intense price battles, he slashed his price down to \$40 and even \$20. One after another, he drove rival dealers out of business, sometimes picking up the pieces for himself by buying up the failed or failing firm's assets cheap. In a few years, Estes became the biggest anhydrous ammonia dealer in West Texas, and one of the biggest in the U.S.

It is against the law to sell a product below cost for the purpose of destroying competition. Moreover, it is dirty

and unethical. And it is one of the quickest ways to destroy the free enterprise system. Yet this sort of thing happens from time to time because a few businessmen do not recognize their responsibilities as competitors in a competitive system. They want to change the rules of the game for their own profit.

Of course, the great majority of businessmen recognize their duty to be fair and honorable competitors. They see this as an obligation to be taken just as seriously as those owed customers, stockholders, employees and government. They know, too, that unfair competitive practices lead to reprisals in kind—the prelude to a dog-eat-dog battle in which everyone is certain to lose.

There are many aspects of competition: product quality and variety, services, advertising, price, and others. Any one of these can be abused but few, if any, can lead to abuses faster than price. To many salesmen, price is the great weapon; the great concern; the thing that is central to their operations. Many talk price all the day long—even when meeting with competitors at trade association conventions and other gatherings. And, of course, they run the great risk of trying to fix prices in denial of the fair and open competition that is part of the warp and woof of good business ethics. The problem was illustrated in a bit of testimony in a Federal Trade Commission price-fixing action, quoted recently by *Printers' Ink* magazine:

Q. Can you describe the type of conversations that were had?

A. Well, frankly, you know how you do at these meetings. You hear a lot of tripe . . . and red tape which they put through, and they put on a lot of rigmarole and put you on these committees doing a lot of different things. . . .

But, after we get rid of a lot of this stuff, maybe while we are at lunch or adjourning for a drink or something, then we start talking. Maybe somebody will say to you, "You so-and-so s.o.b., what did you do down at Bill Jones'?" And you will say, "What did I do?" Well, he'd say, "You give them some extras." And then somebody calls somebody a liar and so forth, and then maybe he would say, "Well, I have got the evidence that you did and you are a liar," and then you would get into a fight with this fellow, and first thing you know, somebody else would come up and listen to the conversation, and then there would be six of them there, and they would be picking on you—I don't mean picking on me, but picking on these price cutters, you understand.

So, well, maybe by that time they had three or four drinks and the thing begins to get a little tougher, and the drinks loosen up some tongues—of course, I don't drink, you understand now, gentlemen, therefore I was always in perfect control of my vocal cords, and I have a marvelous vocabulary, I can assure you, when it comes to calling names. . . . I will be frank, and if you want to crucify me I will add this: I would tell him further that if he didn't

stop these damn price cuttings I would show him how to cut prices, and many times I did cut them, and when I cut a price . . . you knew your price had been cut.

I could go on and on—but I want to say that when any two businessmen get together, whether it is a Chain Institute meeting or a Bible class meeting, if they happen to belong to the same industry, just as soon as the prayers have been said they start talking about the conditions in the industry, and it is bound definitely to gravitate, that talk, to the price structure in the industry. What else is there to talk about? And a guy like me, that doesn't drink or get high and go to the bar, why, of course I had to defend myself in some other fashion than getting drunk and forgetting it—is there anything else you want me to tell you now?

Because prices so often are crucial in business dealings, it perhaps is inevitable that they will be at the root of many problems. Prices, rebates, allowances—these items come to the fore time and again in cases initiated by the Antitrust Division of the Department of Justice and by the Federal Trade Commission. I will mention one case which illuminates several aspects of the ethics of fair competition.

A few years ago, two large wallpaper distributors were aroused by the persistent price-cutting of a competitor. They couldn't complain to the authorities because their rival wasn't selling below cost; he simply was taking a

smaller markup. The two angry distributors decided to cut off the competitor's source of supply. One hired a detective agency to keep a secret watch on deliveries to the man's warehouse and secure the order number on each incoming carton. The identity of suppliers could be learned by forwarding the numbers to the manufacturer.

One of the two competitors had been wholesaling some wallpaper to the price-cutter; these sales were cut off. The second competitor, according to subsequent findings by the FTC, pressured other dealers to stop doing business with him.

According to the FTC, the beleaguered competitor had to go to extraordinary lengths to maintain a supply of wallpaper. On one occasion, the agency said, he had to drive his truck to a neighboring state where he bought a supply in unmarked cartons from a dealer who demanded payment in cash and refused to supply an invoice. Other transactions were similarly cloaked in secrecy.

The FTC ruled that the price-cutter's two competitors had engaged in an illegal boycott. If a businessman acts independently to stop doing business with someone, he usually is within his rights. But if he conspires with others to eliminate a competitor, he is violating the law.

You might argue that this is a legal matter having little or nothing to do with ethics. But think back to one of the first ethical principles you learned in school, or, rather, in the schoolyard. Whenever two boys fought and a third joined forces with one of the combatants, the cry would go up: "Two against one—*no fair*." I think

the same principle applies to the ethics of fair competition, just as it is reflected in the laws which protect fair competition. The law, after all, tends to mirror the ethics and standards of our society.

The fact that a particular law may prohibit an act that is perfectly acceptable in some other country or society does not mean that it lacks inherent ethical implications. As we have noted before, ethical standards change and, by the same token, may vary from one area to another—even within the same broad society.

Piracy is illegal in most countries and I am sure we all agree that it is unethical as well. Nevertheless, piracy was an acceptable method of increasing the national wealth in Elizabethan England. And some of the biggest pirates were knighted for their specialized service to the crown.

Even today, and in this country, we cannot say that piracy is dead. A case in point involved the discovery of slanting oil wells in East Texas in the spring of 1962. The state's attorney general and the Texas Railroad Commission, which regulates oil operations, began an inquiry to determine how many wells were slanted, beneath the surface, to pirate oil from neighboring properties. Every one of the first twenty-two wells checked was slanted. And the attorney general estimated that the piracy might involve fifty million dollars.

This type of operation comes close to the piracy that gladdened the heart of Elizabeth the First. Most of the pirates in American business, and there are very few, forebear the theft of property; they are more apt to pirate competitive secrets.

A spectacular case of commercial espionage occurred quite recently in Washington, D.C. The occasion was a private meeting of lawyers and business executives to discuss an important case pending before the Federal Power Commission. The conferees had a common interest in the FPC proceeding, which involved a natural gas pipeline permit, and they talked fully and frankly about the points at issue and the legal strategy to be employed. Later, they discovered a microphone and radio transmitter secreted in the meeting room. The locale was a well-known hotel. In a nearby room, police found a private detective, a young lady, a radio receiver and a tape recorder.

Fifty years ago, this kind of thing was fairly common, although lacking such refinements as electronic eavesdropping. Clarence Randall, writing in the *New York Times Magazine*, has recalled that the steel companies once were continuously engaged in subversion, seeking the research secrets of competitors. They did their dirty work through bribery or by hiring away technicians who were willing to bring competitive secrets with them. To-day, says Randall, with justifiable pride, technical data is openly and freely exchanged in the steel industry.

Not all industries can make such a claim. For instance, we read about mysterious spy systems in the auto industry, all aimed at uncovering the secrets of new models planned by competitors. And there have been recent cases involving the piracy of pharmaceutical formulas and the theft of valuable oil exploration maps from a major petroleum company.

Very recently, the Maryland Court of Appeals barred a group of former employees of C.E.I.R., Inc., a computer services firm, from competing with C.E.I.R. for a government contract to plan automation of the Social Security system. The court said the employees, while working for C.E.I.R. under a ninety-day contract with the Bureau of Old Age and Survivors Insurance, "were able to absorb unique experience and solidify their contacts with bureau officials" at the expense of their employer. It said the men should have told C.E.I.R. that they planned to set up their own corporation and bid for the automation project.

The potential problems involved in a possible betrayal of corporate secrets must be most acute in the science-oriented industries where research is apt to spell the difference between profit and loss. Companies in this field must protect their secrets—and show a proper regard for the secrets of competitors. Especially, they must be careful to avoid unethical hiring practices.

International Business Machines Corporation, for one, has developed an exacting set of policies to cover the hiring of persons who have been associated with competing firms. And IBM suggests that, whenever anyone is hired after working for a competitor, he be written a letter along these lines:

We recognize that during your employment with the Blank Company you may have been involved in a sensitive and proprietary area of their business and had access to confidential information.

While we are confident that as a matter of personal ethics you would not disclose any of such information to us, this will confirm to you that we in IBM are not interested in obtaining any such information from you. Accordingly, you should use extreme caution in your work at IBM not to disclose any confidential information about the business or affairs of the Blank Company or its future plans or products.

On our part, we will endeavor not to give you any assignment which will require you either to use or to disclose any such confidential information. If you should find at any time that your assignment may require you to use or to disclose any such information, you should decline to do so and inform your superior of your action.

IBM had still another problem directly related to the ethics of fair competition: bigness. IBM's position in its industry is so powerful that it must be very careful not to use that power unfairly at the expense of competitors. Top management's attitude on this point was stated very forcefully by Chairman of the Board Thomas J. Watson, Jr. at a 1961 meeting of top executives. Mr. Watson suggested that IBM employees use "a simple test" to resolve problems of competitive ethics in the gray area where conscience rather than the law is paramount:

Suppose that you were a competitor—small, precariously financed, without a large support organiza-

tion, and without a big reputation in the field—but with a good product. How would you feel if the big IBM Company took the action which you propose to take? Would you regard the IBM Company as taking unfair advantage of you? Would you consider that the IBM Company was using a sales tactic which IBM possessed solely because of its size and reputation, and which, therefore, was unavailable to you?

We must avoid the type of action—even lawful action—which irritates, antagonizes and finally goads a competitor to action. *We simply cannot shoulder people around or give the appearance of doing so.*

I have italicized the last sentence because I think it could stand, in any organization, as the keystone for policies of fair competition. The fair competitor will not shove people around. And if he happens to be a giant like IBM, he should recall another schoolyard principle: "Pick on someone your own size."

There was a time, not many years ago, when a lot of knowledgeable people thought industrial bigness was, in itself, immoral. They had before them the examples of the now-dead trusts and monopolies in such fields as steel, oil, tobacco, copper refining, sugar, rubber, metal cans, farm machinery and aluminum.

Early in this century the president of Yale University, a man of conservative bent, predicted that unless the trusts were curbed, there would be "an emperor in Washington within twenty-five years." And in 1932, Adolf

A. Berle, Jr. and Gardiner Means wrote that the two-hundred largest industrial corporations had grown so fast since 1900 that, if the growth rate continued, they would hold between seventy and eighty-five per cent of all corporate wealth by 1950. Much more recently, in 1948, the FTC expressed similar fears in a report to the House Judiciary Committee:

No great stretch of the imagination is required to foresee that if nothing is done to check the growth in concentration, either the giant corporations will ultimately take over the country, or the government will be impelled to step in and impose some form of direct regulation in the public interest. In either event, collectivism will have triumphed over free enterprise. . .

None of these fears has proven well founded. However, the concern of the FTC was aimed in the right direction. The danger is not bigness but concentration of too much economic power in too few hands in a particular industry. Bigness itself has caused no crisis nor paved the way for any emperor. There are more and bigger businesses than there were three decades ago. And there are more and bigger small businesses. The relative standing of each has changed very little during that time.

Many of us become emotional about bigness, particularly when we see its impact in our own community; when we see its effect on small business. Our sympathy for a distressed local merchant sometimes blinds us, for

example, to the benefits enjoyed by the entire community when a big chain store comes to town.

Without a doubt, the chains have made it unprofitable for many small merchants to continue in business. And where such companies have used illegal or unethical methods to bring this about, they are to be condemned. For the most part, however, the modern chain store—especially the supermarket—has triumphed by offering more variety, quality and economy. In other words, these stores have given us the benefits we expect from a progressive, competitive economic system. All of us enjoy higher living standards as a result.

I can recall most vividly my own experiences in my father's store, which started out as a grocery store but evolved into more of a "general" store. I suspect that my father made all the mistakes in the book so far as running a successful store was concerned, or being prepared to meet the competition of modern methods.

He got off to a bad start, for example, when he chose the site for his store. He owned about two acres of land a full block away from the main street. The land was bought primarily for our home but it was also occupied by a large vegetable garden and a stable to accommodate a horse and cow. Because he already owned this land, which had cost only a few hundred dollars, my father built his store on the corner nearest the main street. But even then it stood at least three- to four-hundred feet away. Because he owned the land, he didn't think far enough ahead, or didn't go to the trouble and expense, of buying a small footage on the main street.

I worked in the store before and after school hours. I was usually sweeping out the place by six in the morning. In the afternoons, I would run errands or, as I got a little older, sometimes drive the delivery wagon or "dray."

A picture of the store comes clearly to mind. It was built in the cheapest way possible and was not at all attractive. The two front windows even had iron bars over them. This was a matter of protection, of course, but again no thought was given to appearance or display.

We handled a general line of groceries, most of them stored in bulk. There was a large, open box of crackers which quickly went stale, and barrels of pickles and salted fish. Later we added a few "dry goods"—clothing and hats. Then, a few years later, we built a lean-to at one side of the building. This was our meat market. We killed our calves and cows and hogs a few hundred feet away and we did our own dressing of beef and pork. We'd wrestle the carcasses into the store and hang them up. There were no screens on the windows and flies were everywhere. Very little attention was paid to sanitation.

There was no hired help. My father used the family for that. He would work twelve to fifteen hours a day and the rest of us would fit in wherever we could. We might be waiting on a customer, selling her a pound of liver and then some sugar and pickles, and perhaps she would want a straw hat or a shirt. So we would wipe our hands on the white apron that we wore and move from one place to another.

We had no real cost system and kept very few books. But at least we tried to collect a markup high enough to

make sure we made some money. The fact that we did a credit business meant that we lost considerable sums.

All in all, the service was poor, the quality only fair, the display and merchandising nonexistent, and the volume small.

I think it was quite typical of stores all over the country at that time, and there still are quite a few in some small towns and in country places. They serve a purpose but they find it difficult to compete.

If a local man has good contacts, imagination and energy, coupled with an ability to buy more or less competitively, he may be that rare individual who is able to compete. In my town, for example, a young man, the son of a butcher, saw the competitive situation changing over the years and built one of the larger food stores. He is doing all right. But he has had to adopt almost all of the chain store methods of service, pricing, quality, procurement, etc.

The chain store and its local equivalent succeed because they observe the basic tenets of good salesmanship. They offer courtesy, cleanliness, economy, and a quality and variety of goods that people want.

This is part of the competition of today's life; it is part of the competition facing nations in world markets. The intensified competition in world trade, from the Common Market countries and elsewhere, brings to us in the United States a new challenge demanding greater efficiency, lower prices, better quality, better merchandising. We can't take things for granted any more. We can't have a country store and expect the neighbors to

come in and buy from us because of who we are. We must meet competition; we must welcome competition. And we must compete fairly—at home and abroad.

Here in the United States, many ethical problems are inspired by distributors—retailers and wholesalers—who try to pressure their suppliers into eliminating or reducing competition at the distribution level. A manufacturer will be urged by a customer to stop doing business with a competing customer, to police the competitor's prices, or to offer the customer a special price so he can undercut the competitor. Most, if not all, of these practices are illegal. And they are unethical in our society because they strike at the roots of our accepted economic system. They violate the basic rules of the game.

Advertising and promotional allowances are a source of recurrent trouble. In order to keep another manufacturer from landing a big order, even big-name manufacturers occasionally will offer a customer a larger allowance that violates the rules; that is, an allowance greater than is offered the customer's competitors. And sellers are not alone in abusing the basic principle of fairness embodied in this legal rule. Certain customers are not above demanding "something extra" in the way of an allowance; otherwise, they say, they will take their business elsewhere. It might be difficult for a salesman to refuse if all he could say was that favoritism of this kind is unethical. Apparently it was altogether too difficult because Congress had to give him a stronger answer: it is illegal.

Closely related to this matter of providing "something extra" are questions concerning entertainment and gift-

giving in business operations. These can be very serious questions inasmuch as even casual and harmless good will gestures can be expanded, with the passage of time, until they approach outright bribery.

Clarence Randall has spoken scornfully of those businessmen who think "the uninhibited use of high-priced food and liquor will move merchandise." Patently, this is a distasteful idea. It seems clear enough that every business firm should have a clear policy regarding the type and amount of entertaining that employees may do at company expense, or that they may accept. And the policy should embrace principles of moderation. While it is true that the business lunch—on the expense account—is solidly entrenched, and innocent enough in most cases, entertainment on a far grander and more dangerous scale is sometimes offered—and accepted.

A good rule of thumb in this area might be to accept no entertainment that you would be unwilling to make known to all your business associates, including your superiors. And, in offering entertainment, you might put yourself in the recipient's shoes and try to employ the same standard, and also imagine what it would look like in tomorrow's newspaper.

The threat to ethical standards is even greater, at least potentially, in the case of gifts offered to customers or accepted from suppliers. There are practical limits to the amount of entertainment one man or woman can accept. But gift-giving literally can be boundless and completely immoral.

Ironically, some companies recognize the danger in a

strange fashion: they prohibit employees from accepting the kind of gifts they offer to the employees of other firms.

Several years ago, the National Industrial Conference Board questioned 291 manufacturers about their attitudes and practices regarding Christmas giving. The majority opposed exchanges of business gifts and only a small minority argued there was nothing inherently wrong with the practice. However, forty-six per cent reported they gave gifts to people outside the firm and fifty-nine per cent said they allowed employees to accept gifts from outside companies.

One executive commented: "This company believes that the practice of giving and receiving business gifts is not desirable. However, owing to competitive practices our marketing department feels that it is necessary that some gifts be given." A company president said:

Some years ago we did a certain amount of Christmas giving, but as the years passed and the level of gifts increased, both incoming and outgoing, we finally concluded that the whole matter was in bad taste and therefore have discontinued giving any presents, and have requested all suppliers to refrain from giving any gifts to our people.

Like anyone else, we were reluctant to see that a pleasant form of greeting or salutation at the holiday season had degenerated into a contest of some kind, but, since it had, we felt that there was nothing to do but face it. We believe that everyone is relieved and

happier by the institution of this policy. We are pleased with the result and feel strongly that this is the proper way to handle the matter.

It would be fine if everyone followed this man's example; the problem would be entirely eliminated. Barring that, however, there are steps that every company can take to keep gift-giving within acceptable bounds. Again, there should be a company policy of moderation, stated plainly enough so everyone in the firm will clearly understand it—and be held accountable if he doesn't. One solution is to place a modest dollar limit on gifts that may be given or received. As an alternative, many companies rule out gifts that cannot be consumed or otherwise used up within twenty-four hours. The important point is to keep business gifts on a tight leash so there will be no implication of commercial bribery.

In entertainment and gift-giving, as in most areas of competition, one thing leads to another and the whole tends to expand. In unfair competition, one act of unfairness leads to another, and these lead to reprisals; a vicious circle—in every sense of that term—is soon created.

The provocation to retaliation inherent in certain advertising campaigns is close to overwhelming, for example. Take the case of the nationally-known manufacturer of synthetic fibers who sponsored a trade paper advertisement that heaped scorn on competitors marketing the same fibers, reprocessed. According to a complaint issued by the FTC, the ad featured a caricature of a tramp-like rag picker and suggested the competitors

were fast-buck operators, loophole artists, unscrupulous merchants, peddlers, solicitors and hawkers of junk fibers. According to the FTC, the reprocessed fibers were not necessarily inferior.

In a somewhat similar case, the FTC cracked down on the manufacturer of a national brand shaving cream for employing television commercials claiming to compare, visually, the qualities of the brand product with "ordinary lather" that actually was an imitation cream lacking ingredients vital to a valid comparison.

An even sorrier example was provided by a prominent glass manufacturer who purported to compare, on the TV screen, the relative merits of competing brands of auto glass. The view through the competing glass was notably distorted. But the view through the advertised brand was perfect. Millions of television watchers were impressed—until the FTC found that scenes supposedly photographed through the advertised brand actually were filmed through open windows.

Fortunately, most businessmen understand the cycle of self-destruction that is started when they unfairly disparage competitors or otherwise ignore the rules of fair competition. And the majority realize that the continuation of free enterprise as they know it depends on self-restraint and self-policing. The alternative, as we have noted many times, is added regulation and control.

THE EMPLOYER'S EXPANDING ROLE



Long before I was born, a *Book of Rules* was published by my future employer, Marshall Field & Company of Chicago, to regulate the conduct of employees in its big department store on State Street. In its own way, this booklet was a pioneering document in the history of labor relations in the United States; it was one of the first detailed codes of its kind. And it makes very interesting reading today—as a telling illustration of the way things have changed in the sensitive area of labor-management relations since the late 1800's.

For one thing, the code laid down many “do’s and don’ts” for employees but said little about the responsibilities of management. “Respectable and moral associations outside of business are expected of every employee,” was one dictum. And this was another: “The visiting of

gambling houses by employees of the house, whether through curiosity or the intention of playing, must be avoided. Any employee who may frequent such places is subject to immediate dismissal.”

Conduct during business hours was regulated much more closely. The men who wrote the rules overlooked very little, as these excerpts demonstrate:

We regret that any employee of this house should so far forget himself as to deface, in any way, the wash room. An immediate dismissal, together with any fine the law will allow, will be inflicted upon anyone who is detected in abusing any room in the store . . .

Young men employed in this house will refrain from lounging or hanging around any of the corners of this store. It has been noticed that some have used these places as a lounging room and have, by expectorating on the sidewalk and otherwise, given the place a very untidy appearance . . .

Complaint has been received by us that our sales-girls sometimes so far forget themselves as to clean their finger-nails or perform other small duties of the toilet while on duty in their departments. Any acts of this kind are entirely inconsistent with our rules and with lady-like behavior . . .

The expense to this house for gas is very large and must be curtailed at every possible point. Each employee will personally see that no extra gas is burned in his neighborhood, and the useless burning of gas

will hereafter be considered as an extravagant breaking of the rules . . .

Much was said about the obligations of employees. But management almost so far forgot itself as to ignore its own obligations toward the hired help. Aside from offering a six per cent discount on purchases made by employees, Marshall Field & Company in those days proffered few fringe benefits. This was one of the exceptions: salesladies who rode bicycles to work were permitted to store their vehicles in the employees' lunch-room on the *fifth* floor.

During my own apprenticeship in the textile industry, the emphasis remained on the obligations of employees. Indeed, the average employer recognized only one important duty toward his workers: to hand them their pay on time. A great many businessmen, and perhaps a majority, felt that the only legitimate basis for complaints from labor was failure to meet the payroll. Otherwise, the bosses of those days had a very free hand in dealing with the work force.

Of course, some businessmen did feel an obligation to distribute coins to schoolchildren or provide cheap company housing for employees. This was paternalism above and beyond the call of duty. And only a minority of firms conceded that labor had any right to organize and bargain collectively on such vital matters as the level of wages.

Today, quite the contrary, business rarely evidences a greater sense of social responsibility than in dealings

with employees. The roster of items open to negotiation lengthens year by year. I think it is even fair to say that, at the present time, nothing affecting the interests of labor, even indirectly, is wholly outside the scope of labor-management discussion.

There have been many reasons for the changes of attitudes and practices that have evolved over many decades. But perhaps the most potent factor was the force of public opinion. As evils became apparent, the people demanded reforms. And business had the choice of changing its ways or having change dictated through government intervention. At the same time, it was not entirely a case of businessmen being backed into a corner and being forced to change. Many employers developed, on their own, a broader and more sensitive understanding of their social responsibilities. This trend was particularly marked once professional managers took over the direction of publicly-owned corporations from the old owner-managers.

Two incidents that occurred in 1911 illustrate the varied approaches to progress in labor relations. In the spring of that year, fire broke out in the loft factory of the Triangle Shirtwaist Company in New York City and 146 trapped employees were killed. Public opinion was outraged; the state's labor laws were overhauled and strengthened; safety codes were tightened. In that same year, the absentee president of Hart, Schaffner & Marx, the Chicago suitmaker, was confronted during a labor dispute with convincing evidence that his firm had been mistreating employees. Stunned by the revelations, the

executive adopted a new attitude toward his workers—and made sure that his supervisors did the same.

In my own business career, one of the first signs I saw of an awakening social conscience on the part of my employer was a decision to conduct night classes for employees. This was one of my first assignments and, for about ten years, I was a teacher by night and an aspiring executive by day.

It was a very rewarding experience. Certainly it was one of the great thrills of my life to work with mill hands, many in their forties or fifties, and teach them to read and write. The light that came into their eyes once they were able to struggle through a paragraph of type provided a psychic income difficult to match.

One of our night school programs involved an attempt to give the mill supervisors, most of whom had little or no formal education, a basic understanding of the American economic system. These men came to the class so poorly equipped, educationally, that none of the standard texts could be used. We had to write our own, on a very elemental level.

This was an ambitious undertaking, and an important one, because, without some grasp of economics, it is very difficult to act intelligently as a voting citizen. Economic issues are among the most difficult and challenging. To meet them successfully is the more difficult when the electorate is uninformed.

I think this is borne out by one of the early experiments in "industrial democracy" attempted many years ago by the president of Dan River Mills at Danville, Virginia,

just across the state line from my home in North Carolina. Mr. Fitzgerald, the president, was an able and dedicated man of great idealism. He tried to fit his many workers into the management of his large textile organization. He had them form a house of representatives and a senate, in which they could debate company policy. And he set up a profit-sharing arrangement. It was a noble idea but it failed. And I think it failed because his workers did not have sufficient grasp of elemental economics to appreciate what their employer was trying to do. They were almost as suspicious of Mr. Fitzgerald as were workers in other companies where management took a tough attitude.

As I was given additional responsibilities in our firm in the late 1920's and early 1930's, I joined with some of my colleagues in trying to develop support for small reforms in our relations with labor. I say "small" because they seem so under present conditions; they were considered quite large at the time and won for those of us who supported them a reputation as "Young Turks."

One thing that troubled us was the antique method of making deductions from the pay of mill workers. It was not unusual for the company to make sixteen to eighteen separate deductions from a single pay envelope. In one instance, a mill manager who was an enthusiastic church leader even made deductions for church dues. After much argument, it was agreed that deductions would be limited to those required by law.

Another of our campaigns centered around the 1,600 houses owned by the company. We were furnishing

houses to workers at twenty-five cents a room per week, which meant about a dollar a week for the average cottage. I argued for higher wages and a room rent of fifty cents—with the extra rent money to be spent in equipping the homes with running water and inside toilets. Also, I wanted to board up the underpinnings of each cottage, so they wouldn't stand up on stilts.

When I became general manager of the mills, we were able to begin the renovation program, financed through higher rents. But we looked upon this as only a beginning. It was our hope to sell the houses to the workers, believing this would increase their sense of self-respect and well being and give them a greater incentive to become active in civic affairs. This, too, was done. Each house was valued by an outside appraiser and the worker-occupant was given priority to buy it for half the appraised value. As I recall the figures, the average house sold for about \$800, on easy terms. More than ninety per cent of the occupants accepted the offer and, ten or fifteen years later, discovered that their properties were worth five times as much.

We were not always so successful, however. I remember that during the early years of the Depression, when we were paying about twenty cents an hour for common labor, one of our officials came down from New York and announced: "We are losing money and you must cut wages to 12½ cents an hour." Many of our workers already had been laid off, because of the economic disaster that had befallen the country, and we felt that this sharp wage cut would be ruinous to the local economy. Head-

quarters wouldn't accept any argument, however, so we came up with a proposal to ease the impact: Why not hire some of the unemployed to build sidewalks in the mill town and, in that fashion, reduce idleness, increase purchasing power, and accomplish a badly needed public works project? We were turned down because the program was "too expensive"—\$6,000 or \$8,000, as I recall.

The philosophy then was "cut-cut-cut." No thought was given to investing in new, more productive machinery; to doing anything to bolster community morale. Neither was there ever any discussion of whether we were taking the right or the socially responsible course. The accountants were in charge and they couldn't see beyond the columns of unpleasant figures.

Ours was not an organized industry in those days, nor were most others of equal or greater importance. The emergence of big labor was spurred, in fact, by the very kind of Depression attitude on management's part that I have described. Public opinion was not pleased with this attitude and, through Congress, made itself felt. The most far-reaching of all developments affecting employer-employee dealings came in 1935 with passage of the National Labor Relations Act—the Wagner Act. This statute upheld the right of workers to join labor organizations and to bargain collectively through representatives of their own choosing. It also defined unfair labor practices on the part of employers and established a new National Labor Relations Board which had two principal functions: to supervise representational elections in industry, and to issue cease and desist orders when it

found management engaging in unfair labor practices. With this law to back them up, labor unions set out to organize on an unprecedented scale, concentrating first on such giant industries as auto and steel. So recently and quickly did this trend develop that it is somewhat difficult today to realize that the steel industry was not fully organized until 1941.

But even today, when the rights of labor have the force of law and management approaches labor relations with a new and more healthy attitude, there are periodic outbreaks of bitter labor-management strife. Some firms, albeit a small minority, still hire labor spies and strike-breaking thugs; some connive with crooked unions to keep honest unions out of their plants. By the same token, certain unions still resort to the use of dynamite and goons; and some wink at unauthorized wildcat strikes or tie up production during jurisdictional disputes entirely divorced from relations with management.

I cannot believe that continued strife, even on a small scale, is inevitable. Surely there will be disputes and strikes. But there is no excuse for bitterness and violence if both sides approach common problems with the will to find common ground and a determination to act fairly toward each other. It is only when recalcitrants on both sides occasionally come to the fore, ignoring the principles of honorable dealing, that we have trouble. I was caught in the middle of such a situation while serving as governor of North Carolina.

By far the toughest problem I faced during six years as governor was a widely publicized strike at the textile

mill in the town of Henderson. This mill had a long record of good relations with the union, until management refused to renew a contract that contained an arbitration clause. The union, unwilling to accept a contract inferior to the one in force earlier, went on strike. Management attempted to continue operations with newly-hired workers and nonstrikers. Violence erupted.

Because public opinion demanded action, I made a personal effort to get the parties together even though mediation services already were working on the case. My first effort was unsuccessful. One big stumbling block was the fact that the two union leaders who participated were jealous, or afraid, of each other. Neither would make a commitment.

A second effort was equally disappointing. An agreement was achieved, and actually signed. But the settlement fell apart when management belatedly revealed that it could offer union members fewer jobs than the several hundred which had been indicated during the negotiations. Management had withheld information vital to the achievement of an enduring settlement. It was, I think, very similar to the situation that pertained in the 1962 steel negotiations when the steel industry welcomed government efforts to encourage moderate union demands without giving any hint that prices might be increased.

In all labor disputes, both management and labor have a duty to bargain in good faith and put their cards on the table; there should be no jokers up the sleeve. And government has a duty to preserve law and order when emotions get out of hand.

After the Henderson agreement was scuttled, new violence broke out and I ordered the state police to keep order. For this I was condemned by both sides. The union argued that the state government should close up the mill, and my refusal to do so was branded as a sign of management bias. On the other hand, the mill owners and many other industrialists in the state thought I was being soft with the union; that I should call out the National Guard to insure a better job of law enforcement. Actually, I had only one point of view, and one which I believe should be applied by government officials in all labor disputes: I felt that the law must be obeyed and that neither side could take the law into its own hands.

It was a long and bitter struggle and, in the end, I did have to send in units of the Guard to control strikers who had become desperate as they saw their jobs vanishing. Eventually, a number of union leaders were convicted of conspiracy to dynamite property and they served prison terms, after their case went all the way to the Supreme Court of the United States.

I think one important lesson pointed up by this struggle was the failure of local law enforcement officers and certain local and county officials to do their sworn duty. We tried to impress upon these people that they had an overriding obligation to maintain law and order but, in many cases, they simply shrugged their shoulders, saying, "There's nothing we can do."

The truth is that they wanted to be popular; they did not want to take a stand; they were eager to pass the buck to the state. And by the time the state was forced to in-

tervene, violence had spread to the point where it was very difficult to control.

This is a problem that exists in many guises in this nation and all nations. People at the local level fail to carry out their obligations and responsibilities, fail to defend the law, fail to build their own good schools, fail to create a climate that attracts prospering industry; fail, as individuals, to do their job. Localities and states abdicate their responsibilities and transfer the burden to the federal government—then complain about centralization of power in Washington. The chief fault is with ourselves. We do not exercise leadership down the line. If management had done a proper job of labor relations in the decades past, it would have no cause to argue now that the law is too hard on management and too easy on unions; there wouldn't have been any laws because there would have been no need.

Fortunately, labor disputes of the sort that put Henderson in the headlines are increasingly rare. More often, management and labor cooperate in areas that would have been far outside the scope of their negotiations just a few years ago. In fact, many managements try to establish a rapport in their dealings with organized labor that goes well beyond contract minimums. As potentially troublesome situations arise, responsible managers look at them from the standpoint of fairness and justice; not from the standpoint of how little they can do under the terms of their contract with the union.

In forward-looking firms, management tries to stimulate a general and continuing exchange of views with

employees at all levels. This enables the company to be aware of the gripes or problems down the line, and if handled successfully, it gives labor a sense of responsibility.

In many areas that formerly were considered wholly within the scope of management policy, labor and management are working together and making notable progress in the direction of doing what is fair and just. An example is the field of fair employment practices: the elimination of old hiring barriers based on race, religion, age or sex. A great many companies have been changing their attitudes on this subject, and so have many unions which have practiced discrimination on their own account. In some communities, these problems will not be solved with the snap of a finger—but they will be solved, because men of good will are moving to solve them.

Socially conscious management also is giving greater recognition to the problems involved in the replacement of inefficient plants. In many cases, the simplest course seems to be to pull up stakes and start fresh in the next county or the next state or in sections where industrialization is just getting started. Even so, fewer and fewer businessmen will pull out of a community and damage the local economy without giving great thought to the implications of their decision—and to ways in which they can ease the impact.

Particularly in recent years, quite a few firms that move to new locations offer to move their employees with them. Others work with labor unions or with local and state officials to train laid-off employees in new skills

needed by other industries in the area. And many, after canvassing all the alternatives, decide not to move.

One could cite many examples of accommodations and compromises made by responsible firms that have felt compelled to move out of antiquated, unproductive plants and into new facilities in other locations. One such incident occurred when the Textron Company announced it would close its mills in Nashua, New Hampshire, and lay off 3,600 workers. Business and civic leaders persuaded Textron to keep one unit open, thus assuring continued employment for one-third of the company's Nashua work force. These same leaders, most of them small businessmen, then put up cash to finance an ambitious campaign to attract new industry. Within five years, they could point to thirty-six new firms with a payroll that more than offset the loss of Textron.

More recently, the Ford Motor Company closed a fifty-year-old assembly plant at Chester, Pennsylvania, in order to start fresh at Mahwah, New Jersey. The 1,243 production workers at Chester were offered jobs at the new plant but few accepted; it is difficult for a homeowner or a longtime resident with family ties to pick up and move on short notice. The state of Pennsylvania sent in a task force and, with the cooperation of Ford and the United Auto Workers, helped establish a notably successful retraining program for many of the Ford employees. Eighty per cent of the graduates of most retraining courses found other jobs requiring their new skills. In some instances, placements hit one hundred per cent. Parenthetically, I think it's worth noting that

courses were given only in those skills that were in short supply in the area. Also, workers could not take a course unless they passed a test indicating an aptitude for the work that would be involved. Some earlier retraining programs elsewhere were failures because they taught unneeded skills or tried to accommodate those incapable of mastering the techniques required.

Another interesting aspect of the Ford case, incidentally, involved the sale of the abandoned plant. The best offer came from a large company that wanted to use the property as a warehouse for paper products—an operation that would involve few jobs. Ford did not feel it could accept less than the best offer. At the same time, the company wanted to see the plant occupied by someone who would hire a substantial work force. Therefore, Ford contacted the second highest bidder—the Reynolds Metals Company—and urged Reynolds to match the high bid. Reynolds agreed and moved in.

In another case, the Kroger Company decided to abandon a large warehouse at Carbondale, Illinois, in order to centralize its distribution facilities at Memphis, Tennessee. Because the plant occupied property donated by the community, Kroger decided to deed both land and plant back to the city without charge—even though it had paid handsomely for the building. By coincidence, this same plant was the focal point for the first industrial loan granted by the Area Redevelopment Administration after that agency was established by Congress in 1961. The ARA advanced \$500,000 to the Carbondale Industrial Development Corporation so it could renovate the ware-

house for use by an expanding, science-oriented firm that moved in and hired five hundred workers.

The Bridgeport Brass Company is another firm that did its best to ease the impact when it moved, not long ago, out of a plant in Michigan that was leased from the federal government. The company went all out to line up a new tenant for the facilities, assigning two top executives to the job. And the government cooperated by passing over the highest bidder—another warehouse operator—in order to get a tenant with a larger payroll. The community was so impressed by Bridgeport's sense of responsibility that company officials were given a public banquet before they left town.

Of course, a departing company cannot always, or even in most cases, offset the impact of its move single-handed. This usually requires the cooperation of local citizens, union leaders and government—federal, state or local. In this connection, I would like to emphasize the role that can be played by local business and professional men in attracting and retaining good employers.

In a great many cases, plants move because they no longer claim the active interest of the community or its officials. Many years ago, a friend of mine shut down three old and unprofitable plants in a large city in the East. And in none of the three instances did the community—or even the employees—show the slightest interest in trying to work with the managers to salvage the operations.

The small businessman can do a great deal to help his community and its work force by taking an active part

in community development. This also gives him the opportunity to help his own business grow and prosper as his community prospers. I will mention a single example of what can be done when a local businessman shows initiative and imagination. This case, quite typical of many others, was cited to me by William L. Batt Jr. the administrator of the ARA.

After World War II, the city of San Jose, California, faced a rapidly expanding population that threatened to cause mass unemployment because the local economy depended on a single crop—prunes—that offered only seasonal employment. Members of the Chamber of Commerce put up \$60,000 to advertise the industrial advantages of the San Jose valley. Many prospects were attracted but the city was ill-prepared to do the sales job required to land new industry.

As Pete Pasetta, a local builder, later told Mr. Batt: "We'd drive the president of some big company to a likely-looking site. When he asked the price of it, we didn't know. When he inquired about sewers, we said we'd talk to city hall. When he wanted to know about sidings, we told him we'd take it up with the railroad. He'd get disgusted and go someplace else where they knew the score."

Mr. Pasetta wasn't happy about this situation and he decided to do something about it. He bought a 120-acre broccoli farm, persuaded the city to service it with water pipes and sewage lines, then paid from his own pocket to have railroad tracks run through the property. In short, he developed his own industrial site. In a few

months, every acre was sold to new industries and Mr. Pasetta bought an additional three-hundred acres. It wasn't long before fifty companies occupied the farmlands. Their work force totaled 3,000 and their payroll \$15,000,000. San Jose was on its way as an industrial center. In 1953, the Ford Motor Company took over a nearby tract and built a \$100,000,000 plant. Ford's action, which more than doubled the payroll, probably wouldn't have happened but for the initiative and imagination of Mr. Pasetta.

Attracting new industry to North Carolina was perhaps my principal program as governor. I undertook the task because the state had a low per capita income and was, I felt, overly dependent on agriculture—particularly the tobacco crop. By attracting new industry, I do not mean that we enticed plants to move from other states to North Carolina. Everywhere we went in search of new business, we emphasized that our appeal was directed at companies planning to expand or reach for new markets. We stated flatly, and repeatedly, that we not only would avoid asking anyone to move—we were against the idea. And our first action in each city was to contact local officials, and the governor of the state, to explain our program.

At this point, I would like to discuss what is perhaps the most perplexing current problem involving labor relations—and one that is likely to become more thorny before it is solved. I refer to technological progress, commonly labeled automation.

To begin with, I'd like to repeat a story that I read re-

cently in a speech by I. John Billera, executive vice president of U.S. Industries, Inc. Mr. Billera said it was an old story but I hadn't heard it before—and I think it bears repeating in any case.

Many years ago, two sidewalk superintendents, inspecting an excavation, were watching one of the first steam shovels scoop out the foundation for a new building.

"The shame of it," said one. "That machine, with one man in the cab, is doing the work of 100 men with shovels."

"Or," said his friend, "of 1,000 men with spoons."

As this story indicates, there is a woeful lack of solid information about the impact of automation, past, present or future. You can argue with equal fervor that automation represents either a boon or a disaster.

I cannot believe that any development that promises to transfer burdensome chores from men to machines will be anything but a blessing in the long run. Certainly, it has always been so in the past. I do believe, however, that the blessing inevitably will be accompanied by knotty problems of dealing with displaced labor. At the same time, I am convinced that these are problems that can and will be surmounted if we use our heads and follow basic ethical precepts of being fair with each other.

Automation problems were the subject of a special report in 1962 by the President's Advisory Committee on Labor-Management Policy, a group alternately chaired by the Secretary of Labor and the Secretary of

Commerce. The Committee found that three central points emerged from its study:

First, automation and technological progress are essential to the general welfare, the economic strength, and the defense of the nation.

Second, this progress can and must be achieved without the sacrifice of human values and without inequitable cost in terms of individual interests.

Third, the achievement of maximum technological development with adequate safeguards against economic injury to individuals depends upon a combination of private and governmental action, consonant with the principles of the free society.

Companies adopting automated procedures obviously expect to reap substantial benefits in increased productivity or they would not make the large investments required. But they should not overlook the interests of their workers, many of whom will be longtime employees who have contributed importantly to the past successes of the company. There is a moral obligation here, first to the individuals directly affected and, second, to society as a whole which should not be needlessly burdened with sustaining displaced workers through government programs if the job can be done privately.

Of course, a company can wash its hands of the problem and say, in effect, "let Washington handle it." That is the easy way—a way so easy, in fact, that it disregards essential moral considerations. I would hope that no

employer would take this attitude until, and unless, he was fully satisfied that he could not handle the problem himself, or in collaboration with union or community officials. Unless management makes the effort, we certainly shall add to the bureaucracy. And some additions doubtless will be necessary in any event.

The Labor-Management Advisory Committee made a number of suggestions about avenues to follow in achieving maximum technological progress with a minimum of individual hardship.

In broad terms, the Committee urged "acceptance by management of responsibility for taking measures, to the maximum extent practicable, for lessening the impact of technological change." And it specifically suggested that management plan well ahead, report its intention to the employees involved, cooperate with employee representatives and public employment services to meet job problems, and adjust the timing of changes, to the extent possible, "so that potential unemployment will be cushioned by expected expansion of operations and normal attrition in the work force (through separations resulting from retirements, quits, and so forth)."

It also was suggested that "private employers and unions faced with automation or technological changes should make every reasonable effort to enable workers who are being displaced, and who need to be retrained, to qualify for new jobs available with the same employer, and to enjoy a means of support while so engaged."

Indeed, this will be the greatest challenge: to give men with obsolete skills and vanished jobs new hope for a

productive life. This is a challenge worthy of the best that is in us—and it may be the most important challenge as the employer's role continues to expand in the years ahead.

Quite properly, several firms that are leaders in the manufacturing of automation machinery are assuming leadership in facing up to the challenge ahead. International Business Machines Corporation, for one, is financing a research project by the National Education Association to unravel the educational implications of automation. In short, IBM wants to find out how to train the future work force in the skills demanded by increased automation, and how to prepare the present labor force for a place in the industrial environment of tomorrow.

U.S. Industries, in cooperation with the International Association of Machinists, also is seeking ways to alleviate the effects of technological progress on labor. This firm's program is quite unique. U.S. Industries and the union have set up the Foundation on Automation and Employment, financed by "dues" assessed against the lease or sale of each automated machine produced by the company. Dues per machine vary from \$25 to \$1,000.

Of course, IBM and U.S. Industries are looking after their own best interests in undertaking these pioneering programs. They know they will be able to sell or lease more automated machines if they can find a way to lessen the resulting impact. But there is nothing shameful about this. Quite the contrary, it represents a commendable point of view. These companies aren't waiting for the federal government—pressured by public opinion—to reg-

ulate automation or otherwise expand the sphere of government activities. They are trying to meet their own responsibilities and lessen the need for government intervention.

As in most cases where business acts with a sense of ethical and social responsibility, these firms—and others like them—will discover that good ethics is good business.

11

BUSINESS GOES ABROAD



Many Americans were shocked to read, in the summer of 1962, about the deportation from the Philippines of a U.S. businessman officially described as a menace to state security and a participant in massive corruption. Our shock was insignificant, however, when contrasted with the indignation the episode caused in the Philippine republic. The anger there represented a serious blow to our entire business community, to our country, and to our foreign policy objectives. Because of the actions of a single American citizen, a people whose friendship we value probably questioned the sincerity of our good will and our self-proclaimed attachment to high-minded principles. One American who fails to meet the ethical responsibilities of a U.S. businessman operating on foreign soil probably does as much

damage to our cause as any army of communist agents.

According to press reports, the errant American, Harry S. Stonehill, went to the Philippines as a G.I. in World War II and remained there to build a multi-million-dollar business empire embracing tobacco, oil, glass and real estate interests. A powerful figure, Mr. Stonehill was cut down to size by Diosdado Macapagal, the new reform president of the islands. Mr. Macapagal charged that Mr. Stonehill had "established a network of corruption reaching practically to every high government office." He said he had proof that as many as one hundred officials were on a "secret payroll" of the Stonehill enterprises. A Deportation Board ruled that Mr. Stonehill was guilty of bribery, economic sabotage, violation of banking laws, blackmail and tax evasion.

Although Mr. Stonehill was an individual acting for himself, his banishment was a sad event for the United States and all its citizens. This was so because there is a natural tendency in most countries to judge the citizens of another by examples of bad performance rather than good. Missteps and failures of a kind far less serious than those attributed to Mr. Stonehill are given inordinate publicity; they provide the justification for unfavorable and discriminatory treatment. Mr. Stonehill seems to have overlooked this side of the coin; he apparently did not appreciate the fact that he was regarded as a representative of the entire American business community, whether or not he deserved the role.

Developing countries like the Philippines attract two

kinds of foreign businessmen: the get-rich-quick promoters and those who want to make an honest contribution. Mr. Stonehill may have been a Jekyll-and-Hyde combination of both types. In any case, he issued a statement of self-justification on the day of his deportation:

"I have come to love the country during the seventeen years that I have stayed here . . . I have found friends among the people . . . I shall treasure this the rest of my life. In all sincerity, I can state that I modestly contributed to the well-being and economic development of this country; in more specific terms, to the employment of thousands of Filipinos."

And yet, assuming the truth of the bribery and other charges, Mr. Stonehill destroyed the value of whatever positive contributions he made to the islands. Whatever good he did was overwhelmed by the ensuing scandal.

I'm sure we would all prefer to believe there are very few Harry Stonehills in our business community; that few bribers threaten to visit upon our country the same opprobrium that Mr. Stonehill inspired. Personally, I doubt that bribery plays a major part in the activities of American firms abroad, though even a small part would be significant. At the same time, I am mindful that an observer as wise and knowledgeable as Clarence Randall, former head of Inland Steel Co. of Chicago, has said that widespread bribery of officials of developing countries is "a stain on the conscience of industry which needs to be removed, and removed soon." Writing in the *New York Times Magazine*, Mr. Randall reported:

In the course of my government service, I visited many of these areas. I know whereof I speak, and I say that there are many otherwise respectable companies which still buy their way in when it comes to securing a mineral concession or establishing an operation in a remote part of the world.

This must stop, and it can only be accomplished by self-discipline. Surprisingly enough, I happen to have grave doubts whether it is a violation of any present federal law for an American citizen to corrupt an officer of a foreign government, but that fact merely highlights the challenge to our business leadership. I reject the argument that other nations are doing it, and therefore we must do it if we are to compete. Better to lose the business than to deny our heritage. The entire prestige of our country, and its ability to preserve our way of life in the world, is at stake. These precious values must not be jeopardized by individual dishonor.

... What could be more tragic than for us to lose an air base that is vital to our national security because of moral turpitude on the part of American business? What will be our position when some demagogue from the desert calls his people to arms with the cry, "Drive the filthy Americans into the sea. We have been robbed of our ancient heritage"?

Of course, the corruption of public servants abroad is not the only evil that American businessmen must avoid. There can be an equally strong temptation to deliver

shoddy or obsolete merchandise to unsophisticated foreign customers who aren't sure what they're buying, or what they need. This is a particular specialty of the get-rich-quick artists who flock to the underdeveloped countries where they capitalize on ignorance and, in effect, "sell the Brooklyn Bridge."

We learned recently in the Department of Commerce about an American firm that was trying to find a foreign buyer for frozen cakes condemned by the U.S. Food and Drug Administration as unfit for human consumption. Unfortunately, our law permits this, so long as a sale complies with the law of the buying country. And consumer protection statutes in many developing countries are rudimentary or seldom enforced.

I am told that the shipment of substandard merchandise to Europe and other industrialized areas is rare; buyers there are sophisticated and can turn to many alternate sources of supply. It is a disturbing fact, however, that such shipments were made following World War II, when supplies of many items were scarce. This seems to suggest there is a fringe element in American business that will show no conscience about chiseling foreign customers whenever the opportunity is present. I know of one such case from my own experience in the textile industry.

During the early months of World War II, our blanket mill received orders from the French government, which needed millions of blankets. Because the need was urgent, the specifications were not very exacting. And because these were to be cheap blankets, going to a foreign cus-

tomers, one of our officials at the mill decided on his own to substitute a wool mix inferior to the one specified; he figured the goods were so cheap to start with that no one would discover the difference. Fortunately, we learned about this before it had gone too far. We threw aside the inferior blankets and manufactured new ones that lived up to our contract.

Another source of difficulty is the use of dual exchange rates by some countries, including a number in Latin America. To husband needed foreign exchange, certain countries prescribe one exchange rate for essential imports and a less favorable rate for luxuries and nonessentials. Some American exporters try to offset the impact of the unfavorable rate by overpricing goods sold to these countries. This practice, wherever it exists, can only give American enterprise a black eye. I think it is significant that, according to reports received by the Department of Commerce, this practice of overpricing is less prevalent among our European competitors who have a larger stake in world trade, compared to their domestic economies. Apparently our more experienced competitors feel a stronger compulsion to protect their trade because they know it means a lot to the prosperity of their country. Our own balance of payments problem—quite apart from ethical considerations and domestic prosperity—should prompt the same concern here.

Because I may have painted a sordid picture, I want to emphasize that I have been writing about an unscrupulous, but worrisome minority. And I would point out

that, in many areas, the American businessman quite often is more scrupulous than his foreign competitors.

For example, U.S. businessmen are likely to maintain very high standards in observing tax and labor laws in countries where they operate; their compliance, in many cases, puts local businessmen to shame. This reflects, I am sure, the vigorous enforcement of comparable laws in the United States.

Quite instinctively, and to their credit, American firms are inclined to avoid doing certain things abroad which are legal there, but run counter to our own statutes designed to protect competition. In many instances, such hesitancy reflects ethical rather than legal misgivings.

As an example, one of our commercial attachés in Australia was approached by a local greeting card distributor who was trying to negotiate a licensing agreement with an American manufacturer. The Australian reported the American firm was reluctant to sign because its cards would be subject to price-fixing agreements in Australia. Said the Australian: "Go back and tell your company that this is the way we do business here; it is perfectly legal." The man who told me this story did not know the final decision of the American firm.

Another American company faced an unusual problem when it opened an operation in the Union of South Africa. It discovered that Negro employees would be charged higher life insurance premiums than whites under the company's insurance program. The U.S. firm refused to accept this situation and, in the end, the same rates were obtained for employees of all races.

Conduct of this sort—indeed, proper conduct in all areas of foreign operations—can only redound to the credit of American enterprise and the nation it represents. Sometimes there may seem to be scant profit in maintaining higher standards than are observed locally. In the long run, however, the benefits are certain to be great.

I say this because businessmen in scores of countries have been demonstrating the same concern about promoting high standards that is evident in the United States. This is an international trend that provides the American with an opportunity to show leadership around the globe. It provides a golden chance to confound the communists and all our detractors by proving the moral as well as material worth of our economic system.

The citizen of a country like Nigeria may value the material contribution we can make to the development of his country. But he will loudly cry “foul” and forget the good we do if he finds that our moral standards are sacrificed in favor of material expediency. In that case, what we thought of as good business would suddenly become very bad business.

Growing international concern about business ethics is mirrored in the spread of our Better Business Bureaus, and similar organizations, to other lands. Unfortunately, however, our businessmen sometimes neglect the opportunity to promote developments of this kind.

At the golden anniversary meeting of the Better Business Bureaus in 1962, one speaker was Senor Jose Herrera de la Sota, president of the BBB in Caracas, Vene-

zuela. His country, he reported, had been "a prime object of attack and natural prey for confidence men and international swindlers from all parts of the world." Into this atmosphere, he added, "the influence of the BBB has come as a ray of light." But he complained that local American managers of U.S. subsidiary companies had shown scant interest in promoting the Caracas BBB. He suggested they had been away from their native country so long that they did not fully appreciate their opportunity for leadership. It was a sorry commentary, and I trust these examples are few.

The American businessman never should be bashful about helping to promote higher standards in any country. He never should feel that local standards are so low that his conduct doesn't matter. Nor should he think that local standards are so high that it would be presumptuous to urge still higher standards.

In Britain, for example, business standards are roughly comparable to those in the United States. Yet the British are keenly interested in raising their standards. In August of 1962, an eleven-member Consumer Protection Committee climaxed three years of effort by presenting to the British Board of Trade a 150,000-word report on ways to safeguard consumer interests through higher business standards.

This document contained many striking features but, as an American, I was struck most by similarities with the Consumer Protection Message which President Kennedy had sent to our Congress a few months earlier. The British report started off, for instance, by making exactly

the same point as President Kennedy: the manufacturer and the distributor speak with a well-organized and powerful voice in national affairs but the consumer is unorganized and voiceless.

Also included in the report were a series of questions directed at British appliance manufacturers; questions reminiscent of the inquiries directed at American businessmen by the Business Ethics Advisory Council: Were the manufacturers certain that their quality control and inspection procedures matched the standards demanded by their duty to their customers, to the reputation of their brand names, and to the nation's reputation? Did they doubt that, in the long run, a satisfied customer is worth more than the cost of making good a product defect of questioned origin?

A strong argument can be made that the American who does business abroad not only had a responsibility to observe the same ethical standards which he observes at home but must be extra careful about his behavior.

The American's conduct must be above reproach, if only because the wealth, power and influence of the United States places its citizens and its businesses under a particularly bright spotlight. Aberrations that might be excused in the case of other foreign citizens or firms are magnified in the case of U.S. citizens. Virtue and humility of a high order are expected. The alternatives are more Stonehill cases, more propaganda windfalls for the communists—and less support and less business for the United States.

Part Three



***the tools
for the job***

THE VALUE OF ETHICAL CODES



The late Thomas J. Watson, Sr., of International Business Machines Corporation, popularized one of the most striking of all business mottoes: "Think." Mr. Watson's one-word admonition to his employees was so punchy and pointed that it has been copied and parodied many times. And even the parodies are a grudging tribute to the impact of Mr. Watson's motto.

"Think" surely is a key word for anyone seeking business profits. And it is equally valid as a watchword for all those who want to maintain good ethics—to do their human duty—in business operations. At the same time, it is worth noting that Mr. Watson went beyond this single word and gave businessmen an entire sentence to *think* about. Said Mr. Watson: "If you reach for a star,

you will never get a star, but neither will you get a handful of mud.”

The many businessmen who are concerned about paying more than lip service to their ethical obligations instinctively will think and reach for a star. In fact, this is the essence of every practical effort to promote higher business standards. But it is no more than the essence. It still is necessary to look beyond philosophy to the concrete steps we can take to make certain that our personal behavior in business, and the collective behavior of those who comprise our firms, measure up to the high ideals of American enterprise.

It seems obvious that the first step necessarily involves the formulation of company or industry policy on matters having ethical overtones. Without such a policy, each executive and employee is “on his own” in an area where the grays predominate and tend to obscure the proper path. To avoid this, well-lighted guideposts are needed.

Few companies can survive without some kind of policy regarding ethical questions. And it isn’t always necessary to put these policies in writing. Many small firms can keep their ethical standards well burnished by having regular staff meetings of key employees. This can sometimes be the best approach in situations where the boss knows everyone and where, in countless small but telling ways, he can demonstrate the ideals that he observes and that he demands of his subordinates. However, the larger enterprise that relies on policies passed around by word of mouth is courting trouble; too often such policies are

easily ignored or misunderstood. Just as bad is the situation of those companies having written policies that seldom are consulted or invoked.

One of my associates in the Department of Commerce, a former businessman who had his own firm, told me that his company adopted a formal code of ethics that hung, in an elaborate frame, outside his office. But the first time an employee was challenged for a violation of the code, the wrongdoer expressed amazement that the code was designed for any purpose except "window dressing." My associate quickly decided that something had to be done to knock the cobwebs off the fancy placard.

Of course, some businessmen oppose the idea of drafting codes. Some take a cynical attitude and proclaim their conviction that "you can't legislate good morals." Others feel that, by the mere act of drafting a code, outsiders will jump to the conclusion that something is wrong inside their company or industry; therefore, they prefer to remain codeless.

Certainly, no code will guarantee high ethical performance. However, you can take a long step in that direction with the help of a code that has teeth and is fairly but firmly enforced. As for the second objection, that code making implies wrongdoing, I believe the public welcomes standard-setting action of this kind and views it, quite properly, as a symbol of the business community's good faith in professing lofty ideals. If the public ever got the idea that business was afraid to adopt formal ethical guidelines, then there would be trouble.

Father Raymond Baumhart, in reporting on the study

of business ethics by the *Harvard Business Review*, asked executives how they would react to an attempt to develop a code of ethical practices for their own industry. Half of those who were questioned said they would strongly favor such a move. An additional twenty-one per cent supported the idea, though less strongly. Nineteen per cent were neutral and only ten per cent voiced opposition.

Going beyond this basic question, Father Baumhart sought comment on specific ideas concerning the possible value of ethical codes. This is what he reported: seventy-one per cent thought a code would raise the ethical level of their industry; eighty-seven per cent felt that a code would not be easy to enforce; there was a near-even split of opinion on whether a code would reduce sharp practices in tough, competitive situations; eighty-eight per cent said a code would help them when they wanted to refuse an unethical request in an impersonal way; and eighty-one per cent agreed that a code would help executives by defining clearly the limits of acceptable conduct.

Since predominant business opinion would seem to favor the establishment of codes, how do you go about the codemaking task? I won't pretend to speak definitively on the subject, but simply will give a brief summary of certain factors that I think deserve serious consideration. Others will be able to add to the list, I am sure, and there are a number of publications that offer a much more exhaustive treatment of some of the ideas I will mention.

One such publication was issued by the American Management Association in 1958 and is entitled *Management Creeds and Philosophies*. And the first point emphasized here is this: "The process of formulating the creed is often more valuable than the finished product." In other words, great benefits flow from the simple fact that those writing a code must sit down and think about ethical problems.

One benefit is illustrated by the experience of a fairly small firm I know which has about one hundred key employees. When this company set about writing a code, top management began by meeting with all these employees to get a better picture of the specific ethical problems faced by those operating on a lower level. Management was amazed. It seemed that everyone in the company had been facing a wide variety of serious ethical dilemmas which they had handled case by case without any guidance from above. Worse yet, most cases had been resolved in favor of the course that would produce the greatest short-run profit. Management discovered that a number of shocking practices had been prevalent because of two employee attitudes: 1. The company had always placed greatest emphasis on rewarding those who made the biggest contribution to profits. 2. Because the firm never had evidenced any great concern for ethical considerations, it seemed to most employees that cutting corners in order to maximize profits was a condition of employment—that was how the business operated; if they didn't like it, they could quit.

Right here, it seems to me, is a compelling reason for

encouraging broad participation in any effort to write a company creed or code. It's the best way to make certain that the real problems experienced down the line will be brought to the attention of top management and dealt with properly. And if a code is imposed from on high, it can only reflect the aspirations of the company and its management, who may be ignorant of certain questionable practices in their firm or industry. Through broad participation, however, the company can juxtapose—perhaps for the first time—its aspirations and its current situation. This is the way to develop a meaningful code.

Equally important, by bringing as many employees as possible into the codemaking process, you enable them to feel that they have had a personal hand in the creation of the code. This means they will take the code more seriously, and they are the more likely to fully understand and appreciate its various provisions.

Wherever practical, therefore, it would seem that management should encourage employees at all levels to participate; to meet and discuss the ethical problems involved in their work; to submit their own ideas of standards to be proclaimed.

To give a specific example, here is how Lance, Inc., of Charlotte, North Carolina, developed its creed, as reported by Stewart Thompson in the American Management Association study:

. . . the creed was developed with the aid of all supervisory personnel. In this company each department head and all supervisors—including sales and

factory supervisors, branch managers, and district managers—were asked to write out their version of “the Lance creed and philosophy of doing business.” The replies were assembled and studied by a committee, which made a rough draft of the creed. Copies were sent to all those who had submitted suggestions. In turn, they were asked to write out their personal adaptations of the rough draft—keeping in mind, of course, the fact that it already represented a composite of their own ideas. The committee used these revisions when it formulated the finished version, which was presented to the company’s board of directors for final approval. Lance’s personnel and public relations director commented that “. . . this approach was one which helped develop the true spirit of our creed in the light of past practices.”

In the same connection, I think businessmen might get valuable pointers from the experience of the American Psychological Association, which adopted a code for psychologists a decade ago. Association members first were asked to report on a firsthand experience in which they had to make a decision having ethical implications. Further, they were asked to give their own appraisal of the ethical issues involved. Once these reports were received, they were studied to see if the personal experiences fell into any discernable pattern. It was discovered that the incidents fell into six main categories. Next, separate committees were appointed to give close study to the problems involved in each category, and to draft

ethical standards covering these situations. The end result was a model of meaningful precision in codemaking.

I cite these only as examples. There are many alternative approaches. But I want to re-emphasize my belief that it is important to encourage broad participation, and for two reasons: first, to get more employees to relate ethics to their daily work and, second, to get a broad picture of the problem areas needing attention.

We have spoken here primarily about company codes. But the development of industry codes is of equal importance. In fact, it seems to me that these are the logical forerunners of company codes, particularly in those industries where one or more bad practices are widespread. Lacking an industry code, it is easy for an individual company to argue: 1. This is an industry problem. We can't do the job ourselves. 2. Why should we take the lead in barring questionable practices while our competitors remain free to operate in their old way?

Trade associations can play a great part in the development of industry codes that attack those problems that are industrywide. By acting first, an association can encourage individual member firms to follow up with codes of their own, tailored to their particular circumstances.

Here again, the need for broad participation is great. If the individual members of the association feel that they have played no part in drafting the industry code, they are not so likely to take it seriously. They must participate, and actively. Also, the industry code must have teeth. A trade association code that doesn't provide for

the expulsion of any member violating the code isn't worth the paper it's written on.

Although it seems to me that there is a compelling argument for trade associations to take the lead in code-making, many experts contend that this is impractical. And, in some industries, this may be true. The principal objection seems to be that too much inertia must be overcome; businessmen attending a trade association convention are too apt to desert the meeting room and adjourn to a convenient cocktail lounge if ethics are discussed; it's too difficult to elicit the broad participation required.

According to those who question the wisdom of trying to start out with industry codes, a trade association will only be spurred to effective action once a few of its principal members have gone through the codemaking process on their own, and learned its value.

If this is true, there is the greater reason for individual companies—and particularly the industry leaders—to get started with their own codes. And this is happening in some industries.

One problem facing any company or industry in drafting a code is deciding how specific it should be. Personally, I feel that a code should avoid fuzzy platitudes and deal in plain language with the real problem areas. I think it should be very specific. Certainly, a code so fuzzily worded that everything is left to personal interpretation can do more harm than good. In such a case, employees and executives may feel they are being encouraged to skirt as close to the ragged edge of the code as possible, in order to make profits at any cost. Also, the existence

of a platitudinous code that has little or no meaning can lull a company into the complacent attitude that everything has been taken care of. For example, what about the effectiveness of the following code:

1. We will strive at all times to conduct the affairs of this company to merit public confidence in American business and industry and faith in our free, private, competitive enterprise system.

2. We will see that our employees are given every opportunity to progress with the company and are appropriately compensated for their work.

3. We will deal fairly with customers and suppliers and extend to them the same treatment we wish to receive ourselves.

4. We will compete vigorously to serve our customers and expand our business, but will avoid unfair or unethical practices.

5. We will seek, through sound management practices, to produce the profit necessary to the continued progress of the business and so fulfill our responsibilities to our stockholders, employees, customers, community and nation.

Could you find much guidance through the gray areas of business operations by consulting this particular code, put out by a national association? It is much too general and does not come to grips with real problems. At the same time, many companies that have excellent records for promoting high standards boast of codes no more

specific than this. There is a difference, however. Many such companies also have issued more detailed management guides and statements covering specific areas of operations that enlarge upon the generalities of their code. This can be a perfectly acceptable approach. In large and complex organizations, no single document can cover all the problem areas. But the important point is to make sure that all these areas are covered, in one way or another.

It is important to emphasize, too, that the formulation of even the most precise, far-ranging code is only a first step toward the creation of a living document. Management must then make it clear that the code is not just "window dressing."

The creation of any ethical code should be followed by the development of an educational and communications program; something that will already have been started if there was broad participation in the drafting of the code itself. Employees and executives must be made aware of the code and its meaning. One method might be to have them sit down at their own levels in the company and discuss the code, interpret it, and find out what it means in terms of their own daily work. As part of a continuing program, it might also be useful to develop specific case histories to be discussed in sessions of this kind.

Surely the importance of developing and maintaining effective lines of communication on ethical matters cannot be stressed too strongly. And this is no easy task, even for the biggest and best-managed companies. Henry

Ford II, in his 1961 address on business ethics, told a pertinent story about a district sales employee who involved the company in an antitrust pricing case. "His was not the only fault," said Mr. Ford. "It was also the fault of our management for failing to instruct the field personnel fully on the details of proper conduct."

As part of any effective communications program, there should be individuals at all levels in a firm who can answer questions about the company code and standards as they arise. Because many problems cannot be resolved in terms of black and white but involve dilemmas, employees must have access to advice and counsel. And I don't mean that it is necessary or wise to hire a crew of social workers for this purpose. It probably would be best if designated counselors were longtime employees who understand the company and the industry at least as well as those who will come to them with questions.

There must also be clear communication of the fact that top management subscribes fully to the code and will enforce it firmly but fairly. A code cannot remain alive if employees get the idea that it does not have the complete support of top management, or that exceptions are permitted. If it ever becomes apparent that certain employees have been allowed to "get away with" violations, the code is dead. Employees will know if this happens, and they also will know if the man who produces profits at any cost is the one who wins a coveted promotion while ethical behavior, like other virtues, is left to be its own and only reward. If this happens, other employees will be quick to catch the cue and act accord-

ingly. It is the prime responsibility of top management to make certain that there is no cue of this kind.

Finally, a code cannot continue to live unless there is a constant effort to keep it alive in the minds of executives and employees—and to subject it to continuing review and updating. Management spends large sums each year to train its people in the benefits of cost- and profits-consciousness. Ethical consciousness requires the same sustained effort—and is worth just as much to the company in the long run. For if a firm does not develop and nurture a reputation for fair dealing in all phases of its operations, its profits will suffer. And one major scandal sometimes can be ruinous. The new employee must be given a thorough grounding in the *required* ideals of the company, just as old hands are never allowed to forget them.

Because ethics are a part of social development, they change with society and must be kept current. Business operations change, too, and create new problems that must be met. No code can be looked upon as the product of a crash program, requiring a spurt of sustained effort only to be relegated to a secondary position once the fine words are on paper. To maintain and elevate the ideals and standards—and practices—of our free enterprise system requires constant effort. Day after day, we must *think and reach for a star*.

ETHICS EDUCATION AND THE EDUCATORS



Buying an air conditioner shouldn't require a college degree in engineering but, until quite recently, the engineer who wanted to cool his house had a big advantage over most of us. The layman was easily confused—and misled—by advertisements and sales literature for many leading brands of air conditioners. It was the fashion, for example, to make claims in terms of tonnage. Theoretically, a one-ton unit was supposed to remove 12,000 British thermal units of heat in an hour's time. Actually, it was apt to range anywhere from 8,000 to 12,000 BTU's. Because tonnage ratings were wholly unreliable, they gradually were dropped in favor of claims stated in terms of horsepower. But horsepower was equally imprecise since it did not measure

actual cooling but, rather, the power of the electric motor operating an air conditioner's compressor.

This haziness of vital ratings meant the average consumer was quite incapable of comparing the real cooling power of competing units. Manufacturers and retailers were free to make all kinds of insupportable claims in order to push a particular brand or model. The public was the loser but, potentially, there were other losers. There was the danger that manufacturers and retailers would suffer, too, if the consumer became convinced that the industry was playing him for a fool. To avoid such a situation, the National Electrical Manufacturers Association used its influence as an industry spokesman to promote meaningful ratings. It set up a testing program, conducted by an independent laboratory, to determine the cooling capacity of each model in terms of British thermal units of heat removed per hour—the measure recognized by engineers as the most precise. And it persuaded manufacturers accounting for ninety per cent of industry sales to submit their models for testing and certification. It also offered to open its program to non-member firms. And it cooperated with the Association of Better Business Bureaus to publicize the program so consumers would be aware of the best way to compare the cooling power of competing air conditioners. You didn't need an engineering degree to do it; you just had to look at the rating stamped on each machine.

I mention this program at some length because it is a fine example of the sort of thing that needs to be done on

a continuing basis if business is to maintain high ethical standards.

The air conditioning industry was free to persist in confusing and misleading the public with its advertising claims. After all, the old tonnage and horsepower ratings were scientific, after a fashion, and they certainly were perfectly legal. But the industry decided that merely keeping within the law was not sufficient; that it had a responsibility to do everything it could to protect the consumer against both confusion and deception. So it acted on its own, without any prodding from government, to clean up a trouble spot in its midst.

Many industries have been equally alert and forward-looking in dealing effectively with emerging problems. But the spirit of self-regulation has not captured all industries or companies. There still are those who recognize a problem only when it is so glaring that there is talk of government intervention—the very thing businessmen complain about and want to avoid.

As stated before, the only sure way to avoid government interference is to make it unnecessary. And this means that self-policing must begin on a voluntary basis long before a problem is painfully evident to the general public. Business and industry must anticipate problems and deal with them before they become acute and inspire public comment and action. Failing that, they must try to overtake problems that already have grown to visible proportions.

The advertising of new and used autos by local dealers is an example of a troublesome area that must be evident

to anyone who has shopped around for a car. Abuses have developed over a period of many years with only sporadic and largely ineffectual attempts to root them out.

In recent years, a more concerted cleanup effort has developed from a collaboration between the National Automobile Dealers Association and the Better Business Bureaus. These two organizations have drafted a set of *Recommended Standards of Practice for Advertising and Selling Automobiles*. This is a crystal-clear document that is very precise in differentiating between acceptable tactics and those which are deceitful if not downright fraudulent. But the code has a major shortcoming because the NADA "does not engage in any activity pertaining to the administration or enforcement of these standards." In other words, a member can thumb his nose at the code and remain in good standing.

Even so, the code cannot be ignored with impunity. The Better Business Bureaus watch closely for violations and, when they find them, don't hesitate to identify the culprits for the benefit of local consumers. In this indirect fashion, the code does have teeth—though probably not enough to discourage the dealer who is more intent on grabbing a fast buck than in earning a reputation for fair dealing.

The Association of Better Business Bureaus and its more than 120 local bureaus from coast to coast represent one of the business community's most ambitious and effective attempts at self-regulation. Many people believe the aim of the BBB's is to protect consumers. Actually,

this is how the National Bureau in New York City describes its function: "To elevate the standards of business conduct, fight frauds, and assist the public to achieve maximum satisfaction from its relations with business." The public is mentioned last, and intentionally so. The prime purpose of the BBB movement is to protect the responsible businessman against unethical competitors who would rob him of sales through unfair practices. The fact that this effort also guards the interests of consumers is a fortunate by-product.

Samuel C. Dobbs, sales manager and later president of the Coca-Cola Company, was the father of the Better Business Bureaus. Dobbs began developing the BBB idea after Coca-Cola was haled into court in 1907 to answer false advertising charges brought under the Federal Pure Food and Drug Act. Although Coca-Cola had little difficulty in disproving the charges, Dobbs was greatly disturbed by a statement made in court by the company's attorney: "Why, *all* advertising is exaggerated. Nobody really believes it."

Dobbs decided that if advertising merited so little faith, something should be done to change the situation. Becoming an evangelist of self-regulation, he toured the country to urge that advertisers put their own house in order. His efforts were climaxed by the founding of the National Vigilance Committee, the forerunner of the BBB's, in 1912.

In 1961, the Better Business Bureaus investigated 39,141 pieces of advertising and looked into 258,173 complaints from the public. The areas which caused the greatest dif-

ficulty, as measured by the number of public complaints received, were: home improvement, appliance sales and service, radio-TV sales and service, magazine sales, photography, auto equipment and service, home furnishings, apparel, and used car sales.

As is evident from these categories, the BBB's are active in policing the local businesses which give the average American his most forceful firsthand impression of business standards. But this does not mean that the Bureaus neglect the activities of large corporations. It only means that a single complaint against a multi-million-dollar advertising campaign gets the same treatment, statistically, as one involving a flier distributed by a local "termite expert."

While there is no other organization quite like the Association of Better Business Bureaus, many organizations do equally worthwhile work to insure high business standards. These range from such groups as the Chamber of Commerce of the United States, the National Association of Manufacturers, the National Industrial Conference Board and the American Management Association to local chambers of commerce, service clubs and business groups.

The Business Ethics Advisory Council of the Department of Commerce received excellent help in its work from the American Management Association. The AMA is offering to aid any industry or company that wants to draft a set of ethical standards or develop ethics seminars for employees. In order to further the work of the Ethics Council, the American Management Association has be-

gun a pilot program to promote the establishment of company and industry codes. A feature of this effort was the preparation of a special step-by-step handbook to guide those responsible for ethics programs. And it has started work on a packaged seminar that, hopefully, will be found useful by many business groups and individual companies.

Other groups are organizing locally to further the work of the Business Ethics Advisory Council. The "Committee of One Hundred" that was started in Portland, Oregon, is one example.

The committee movement stemmed indirectly from a letter I received in 1961 from Sid Woodbury of Portland, a friend and fellow Rotarian. Mr. Woodbury suggested there were thousands of hard-working, intelligent and experienced (but retired) businessmen in Rotary and elsewhere who would work enthusiastically and without salary to help the national government in worthwhile programs. I welcomed the idea and asked Mr. Woodbury to submit the names and qualifications of friends whom I could call, should the need arise.

After the Ethics Council issued its *Call for Action* in January 1962, it occurred to me that Mr. Woodbury and his friends in Portland might be able to do something locally to push our Ethics Council's program. The Oregonians took to the idea with enthusiasm and formed the first Committee of One Hundred. The group includes leaders of various industries and professions, clergymen, labor leaders, educators and a former governor of the state. The members have organized themselves into fif-

teen working committees. Starting at the community level, they have worked down through individual industries and, finally, individual firms to call attention to the continuing need for paying thought and attention to ethical aspects of business operations. Their work has met with a good reception locally, has been very productive, and shows no sign of slowing down. Many cities could emulate their example. In fact, the Portland group now offers to share its experience with similar groups organizing in other communities.

There is a job to be done, too, by the nation's colleges and universities—particularly by those which have schools of business or commerce. Many of these institutions have been conscious of their role for decades but, still, there is a need to reappraise their work.

Business schools and professional schools generally are conscious of the fact that it is not enough to teach students such specialized courses as accounting, marketing, advertising, etc.; they also must teach the broad principles of business and the ethical principles which are an integral part of all responsible business operations. They must point out not only the greatness of the free enterprise system but the responsibility of those who operate that system to keep it honest and high-principled, both for its success at home and for its influence the world around.

Most universities teach ethics in their philosophy departments, but business conduct is mentioned only incidentally, if at all, in these classes. I'm thinking more of courses aimed directly at those who plan to enter busi-

ness careers; courses that give young men and women a taste of the real-life problems that face people in business, and the difficulties involved in resolving many of these problems.

In mid-1962, the Business Ethics Advisory Council polled leading schools of business administration to find out what was being done to teach business ethics. The Council found that few schools offered a separate course in business ethics. The tendency was to weave an ethical content into all the specialized courses; i.e., in statistics, to make it clear that "while figures can't lie, liars can figure." One of the exceptions was the University of Wisconsin, which has taught business ethics as a separate course since 1907; Wisconsin reported that its course is so popular that enrollment must be limited. More common was the experience of another school which said it dropped an ethics course because it became too preachy and was shunned by the student body. Why the difference—is it content or leadership?

To teach ethics as an integral part of every specialized business course can be practical and even preferable; if ethics is offered as a separate course, the teaching staff may decide that the subject is adequately covered and neglect the ethical aspects of other courses; also, a separate course may cause students unconsciously to segregate the subject in their minds and fail to relate it to over-all business operations. However, I would respectfully suggest that our colleges review the content of their specialized courses to make certain that ethical questions are not being overlooked or subordinated. And I would hope

that the universities might follow the lead of the University of Wisconsin in offering special courses and seminars.

Particularly in the graduate schools, I would suggest that thought be given to establishing seminars in business ethics. One idea submitted to the Council was to invite business and professional men to appear weekly and present a case from first hand knowledge. After a guest had presented his case, students could discuss how best to handle the problem, then hear the guest tell how he handled it. If several schools cooperated in such a program, they soon could develop a file of challenging case histories to share with others, thus cutting down on the need to search for local guests and at the same time keep the seminars geared to practical business affairs.

Incidentally, the dean of one large school of business administration made a comment to the Ethics Council which struck me as worth noting. This man said that college students tend to be idealistic in approaching business ethics and only learn corner-cutting and questionable practices after leaving school.

"Perhaps students and teachers should be talking to people in the business community about business ethics rather than having people in the business community come into the schools to talk to the teachers and students," he said. "The problem does not lie in the colleges but lies in the business community. If it is to be solved, it must be solved there."

The dean made a point worth considering, and one that already has been considered by several universities. I

know a number of schools which, in addition to holding ethics seminars for students, sponsor them for local businessmen. I feel sure this can be an effective way to emphasize the importance of ethics to businessmen so busy with their daily work that they follow a fixed pattern without stopping to reflect occasionally on the ethical aspects of their operations. Even the businessman who is behaving with absolute propriety will lose nothing by pausing to reflect on the nature of his actions and his role in society. Others may be inspired to give greater thought to their responsibilities.

Clergymen, too, have a great opportunity to offer special guidance to the businessmen who worship at their churches and synagogues. Of course, there is the danger that they will know too little about business operations or take the preachy approach that many businessmen would find remote from their daily activities. Despite the obvious pitfalls, however, many businessmen would welcome a greater effort on the part of our churches to help promote high business standards. An example was the reception given the New York minister who pioneered the "seminar on rails" which I mentioned much earlier.

Father Baumhart, in his study for the *Harvard Business Review*, found that of all those executives who expressed an opinion, "four out of every five were dissatisfied with what organized religion had or had not done" in the area of business ethics.

Of course, some businessmen (twenty per cent in Father Baumhart's survey) want no help from the clergy. One company president, for instance, said his "religious

convictions were not in need of assistance." And another said, "I don't believe the clergy should be permitted to preach to businessmen." This is no reason, however, for the clergyman to throw up his hands and duck the subject. Under our system, there is nothing compulsive about religious observance. Neither can there be any compulsion in offering religious guidance to businessmen; they can take it if they wish or ignore it entirely. And the clergyman can be of real help to those who want or need such guidance.

Father Baumhart reached the conclusion that "most businessmen welcome the assistance of clergymen who are well educated in business, economics and the social sciences." He said many "favor the idea of regular meetings, attended by a small group of businessmen and a clergyman, for the purpose of discussing problems in business ethics."

More than a score of prominent religious leaders have been assisting the Business Ethics Advisory Council by trying to develop specific programs for offering businessmen constructive help from the clergy. To bring these ideas to full fruition is a genuine challenge—but one with much promise.

Of course, no businessman should leave the job of promoting competitive ethics to a trade organization, a university or a church. The assignment is his in the first instance. High standards can be encouraged by outsiders but they cannot be imposed. That must come from within; from within the individual who tries to see his duty clearly and act accordingly—at home, in his com-

munity, in his daily work. And he should welcome help from all those who have a keen interest, as American citizens, in preserving the good name of our competitive economic system.

GOOD ETHICS START AT THE TOP



A friend of mine who left industry to serve the national government during World War II once told me of his first experience in Washington—an experience that was rather noteworthy. I will relate it here because it is very pertinent to our concluding topic: the role of top management in helping to create an enduring climate of ethical awareness in our business community.

My friend, having been recruited for one of the senior management jobs in the Office of Price Administration, visited the agency the day before he was to report for work. His new associates welcomed him and suggested he sit in on one of the many conferences that seem an inevitable part of government. He was told that the experience would be a good way to “get his feet wet.”

One participant took a very firm position on a vexing problem put before the meeting, expressing himself in a rather loud voice which the others interpreted as a sign of deep conviction. But later in the meeting, with the same subject still under discussion, this man became equally vehement in defending an exactly opposite view; the problem and the principles at issue were unchanged but his attitude had shifted with apparent unconcern, by 180 degrees.

At the end of the meeting, my friend was asked if he had anything to say.

"No," he answered, "but I would like to ask a question. I wonder what the gentleman who spoke on such-and-such a problem meant by his last statement? It represented a complete change from the attitude he took earlier in the meeting."

The loud-voiced conferee who was present turned to my friend and declared, "I didn't make the statement in the first place." Right in front of a dozen or more people, he lied through his teeth. And he proceeded to give forth with a lot of doubletalk designed to obscure his shift of position.

After the meeting was adjourned, my friend asked a high O.P.A. official, "Where does this man work?" And he was told, "He works for you; he's one of your associates."

"He *was* one of my associates," said my friend.

"What do you mean?" asked the other man.

"That fellow will not work for me," said my friend,

“because he is a liar. Nobody can lie to me and work for me if I know about it.”

And my friend was told, “This sounds like tough action but you’re the boss.”

The man was not allowed to report for his usual work the next morning. But he wasn’t fired, either. He was transferred to another agency. And, “Anyway, all he had done was to lie,” observed another employee.

My friend learned for himself a lesson about one facet of government that always seems strange to those fresh from private industry: the difficulty of removing anyone from a government job. But he also taught his new associates in government a lesson of great importance. He made it clear at the outset that he expected—and demanded—complete honesty. It was a lesson that made a deep impression on his new staff; they got a quick and revealing glimpse of my friend’s personal standards and realized that anyone who ignored those standards would do so at his own risk. Not that their standards were any lower, of course, because government employees are as good as those in private enterprise; they are just as honest and just as competent. But if their standards happen to be lower in an individual case, the lesson was well worth it.

Top management must set the moral tone in any organization, and it must personally see to it that the staff remains on key. If the standards of top management are high, the chances are excellent that standards throughout the organization will be equally high. But if the men at the top have low standards, there is the ever-present dan-

ger that more honorable men below will be corrupted by the attitude of those above them and the organization will take on a shoddy tone.

I once read about a war profiteer who was astonished to learn that employees were stealing equipment and materials from his plant.

"How could they do this to me!" he exclaimed. "I pay them well."

And his plant supervisor told him, "If you teach a man to steal *for* you, he'll steal *from* you."

Subordinates quickly discern the standards of their bosses and quite often act accordingly. If the boss is a corner-cutter, or is inclined to close his eyes to bad practices, the employees will find him out. And the weakest among them will quickly take their cue from him, making it increasingly difficult for more honorable colleagues to maintain their own higher standards.

Good ethics must start at the top, where the most influential example is set. And they must be enforced from the top.

In this connection, it is important to note, also, that top management is not confined to a company's president or board chairman or members of the executive committee. All supervisory employees are a part of top management and must share the burden of setting a proper ethical tone. The sales manager is top management to his salesmen. The treasurer is top management to his accountants and secretaries. The plant foreman is top management to the production workers assigned to his section. Anyone with a supervisory function of any kind is top manage-

ment to someone in the organization, and is so considered by the public. The lady who greets visitors or answers the telephone will have a great deal to do with the public's impression of a firm; she is top management in her own right.

The chain of command in any organization is like a straight line: a series of infinite points. Each of us along the line is one of those points and, together, we make the straight line. Or we can make a crooked line. The choice is ours. We cannot leave it to subordinates to determine whether the line is straight or crooked. They must do their part, of course. But the responsibility rests with us.

Clarence Francis, the former board chairman of General Foods Corporation, is one of many executives who appreciates the importance of setting ethical standards at the top. It was his practice, I understand, to address newcomers to the firm and personally emphasize the importance of high ethical standards. He used to say: "Never do anything while employed by General Foods that you would be ashamed to read about on the front page of the *New York Times*." And he would urge all employees to report any incident which they felt did not match the standards he envisioned.

I have been told about one General Foods employee who tested Mr. Francis, to find out if the little speech was genuine or just another example of "window dressing." This particular employee was disturbed about a claim made by the company in announcing a revised pension program. The company had told its workers that half the cost of the program was being met by General Foods,

the other half by the employees. Making some simple calculations, the employee found that in the case of certain co-workers, the company's contribution was slightly less than half. Although the company-wide average was somewhat better than fifty per cent, he reported his findings and suggested that General Foods had acted unethically and had deceived some of its workers. Mr. Francis agreed. The pension program was revised anew to make certain that the company paid at least half the cost of each employee's pension.

When top management behaves like that, you know a real effort is being made to observe high standards. And the employees know it. If Mr. Francis had equivocated, which he could have done very easily by pointing out that the company's average contribution actually exceeded its claim, he would have undercut all his efforts to promote good ethics. But Mr. Francis knew that it wasn't enough to talk about ethical conduct; it had to be a day-to-day practice carried on without shilly-shallying.

In sharp contrast to the behavior of Mr. Francis was the conduct of a high official in a state where there had been minor pilfering of state property and the unauthorized use of state vehicles for personal convenience. The governor of the state told me that in one state agency, an employee actually had stolen money from a canteen operated by fellow workers; he was convicted of misappropriating about \$5,000 and was given a jail sentence. The man's superior, a good-natured, popular official, went to the trouble of making a public statement that,

even though his subordinate had stolen \$5,000, he certainly was "a fine fellow."

The boss in this case had a responsibility to make clear his insistence on complete honesty, if only to remind the convicted man's colleagues of their own responsibilities. And he certainly should have done this had he been concerned about halting the other evils being practiced by certain state employees. But instead he muddied the waters with a statement that could easily be interpreted as an indirect defense of thievery. It was a sorry example of loose and dangerous thinking on the part of a top management representative who let his own good nature and kindly spirit overrule his sense of right and wrong.

I had a somewhat similar experience in the Department of Commerce in 1961. The Bureau of Public Roads, which is a Commerce agency, learned that some highway contractors in a certain state were bribing state highway employees to overlook work that failed to meet contract specifications. The Bureau immediately got in touch with the governor of the state and told him the federal government would not tolerate such conduct; Washington had a voice because federal highway aid funds were involved.

A little later, I asked someone at our Bureau for a report on the situation. I was told that the problem had been solved.

"How did the governor handle it?" I asked.

"Well," said my informant, "he simply removed all the bribe-takers from jobs where federal money was involved."

"What did he do with them?" I wanted to know.

"He kept them in the state highway department," I was told, "but I can assure you that all of them have assignments where they won't handle any federal funds."

"You can't be a little pregnant," I told the man from the Bureau. "Either you enforce honesty or you don't. Call the governor and let him know that he will not get any more federal aid until he gets rid of these people."

You can imagine what the reaction is when known bribe-takers are allowed to retain their jobs with a state government, as sometimes happens. And the same can be said for any private firm that winks at wrongdoing by executives or other employees. The board chairman, the corporation president, the governor of a state, the federal cabinet officer, the foreman on the assembly line—all must recognize their responsibility to help preserve the integrity of their organizations by setting the proper tone.

Surely all of us can agree that in business and government, or in any other activity, honesty not only is the best policy; it should be the *only* policy. The dishonest person in business or government surely is riding for a fall. The thief is likely to be discovered and the liar eventually trapped in his own web of fictions. If you make a statement to your customers, your employees, your stockholders, or your constituents, speak the truth and you won't one day run into the problem of trying to remember what you told them last time. If you do your best to speak truthfully and act with honor, you needn't worry about the past; you can keep your eye firmly fixed

on the future and use all your energies in building for a better tomorrow.

Sometimes, you will have to depart sharply from past practice if you are to achieve the goal of a brighter future. Admittedly, it is difficult for a person to ignore tradition or custom even if he knows that to follow the tradition or custom is to continue a dishonest or unethical practice. But this shouldn't deter anyone from doing what he believes is right.

In many states, including my own, it had long been the practice for governors to come out in favor of a liquor referendum that would give people a chance to vote on whether or not they wanted liquor sold in the state. Most governors, myself included, were convinced that if the question was put to a vote, the combined influence of the church people and the bootleggers, working together in a strange combination, would defeat the "wets."

I felt that in North Carolina our existing state control system, where liquor was sold by the package in a government store and bootlegging was curbed, was the best thing for the state. However, it was hard to be unmindful of the tradition that had prompted each of my recent predecessors to favor a referendum in his initial message to the state legislature. As lieutenant governor, I was catapulted into the governorship upon the sudden death of my predecessor, and wanting to make a good impression in preparing my first address to the legislature, I followed a number of traditions including endorsement of a liquor referendum. It was a hypocritical thing to do. But I told

myself that, since the legislature never before had acted on the referendum idea, this wasn't apt to upset the existing local option system which I actually favored. And it turned out that way, as the legislators never allowed it to get to a vote on the floor.

In the months that followed, however, my conscience began to bother me and, when I had been elected governor in my own right, I decided to face up to the situation. I told the legislature, and through that body the public, that I would not request a referendum but would insist on tighter control of liquor sales. I was advised in advance that this would mean the Democratic party would lose votes; that I could never again run for public office in North Carolina because of the emotional opposition I would arouse. Actually, there was great relief throughout the state. I never received a word of criticism about my action and, on the contrary, received much praise. I think this often is the case if one is willing to do the right thing and not worry about what people may say.

Too often, we permit the continuation of wrong practices because we are too timid to disturb the status quo. In business, for example, it is easy to say: "Our company has survived for a long time by following our current practices; why change things?" And so, even if some of the old practices are unwise or unethical, change is resisted.

Although this happens too often, I do not believe for a moment that a majority of businessmen feel this way. In fact, if most businessmen resisted change, the free enterprise system would not have survived so long nor

won such universal support from our society. The system is strong and enduring because it is flexible; it is ready and willing to change with the march of events; it is ready and willing to try something new. The very word "enterprise" connotes daring and experimentation; it is the antithesis of clinging to the dead past.

Changes in American enterprise embrace the whole gamut of business operations. There is constant change in products, production techniques, marketing methods—and in the application of ethical standards. Of course, it is easy to overlook intangibles like standards of conduct and concentrate all attention on products, production and marketing. This is precisely what we must try to avoid, because the strength of our business community depends fully as much on the ethics of business conduct as on more material matters.

If anyone doubts that business morality is deserving of the same thought and attention paid these other matters, let him review the economic history of the United States in this century. He will find that advances in products, production and marketing have been matched by a gradual elevation of business standards. And he will find that all successful businesses that have survived and prospered with the passage of time have kept in step with changes in all spheres of operation. Had they neglected ethics, or any of the other areas of advance, they would have become another statistic in the tabulation of business failures. If our businessmen had not kept pace with progress in every field, you may be sure

that our country would not be a leader of the industrialized world.

To be a leader can be very satisfying of course. But it also can be too satisfying, by inviting complacency. Although we are a leader, our leadership faces a strong and persistent challenge. Exponents of an ideology and economic system that pays scant attention to ethics are trying to convince the world that their methods are superior. And our friends in Western Europe are bent on demonstrating that they can put together a competitive economic machine of equal or greater strength and influence than our own.

We must show the first group—the Soviet—that our system will continue to demonstrate its superiority in the only way that really counts—actual performance. And we must show our European friends that they are wise to try to match us, competitively, by using our methods instead of those advocated by the communist world.

If we are to deserve a continuing position of economic leadership, we must constantly improve our products, find better production methods, polish up our marketing—and continue to raise our level of ethical conduct.

Because we in the United States are economic leaders in many ways, and can already boast of high standards, we may be tempted into complacency. Because we have done well in the past, we may shrink from change. But if we fail to progress, we abdicate our leadership; we take ourselves out of the mainstream of history and, in effect, lose our right and ability to share in the top management of the world.

It is well known that many of the extinct civilizations vanished in a morass of materialism; they became too concerned with luxuries and pleasures and rejected their spiritual heritage.

This is not the fate in store for the United States; it cannot be if all of us in management—in business and government—do our part to keep our country in the mainstream of human progress.

In the area of business ethics, every American can help bring about the further progress that will be required in the decades ahead, because we are all “in business” in one sense or another. But the heaviest burden rests with the managers—the company presidents, the board chairmen, the labor leaders, the government officials, the plant foremen, the proprietors—all the big and little bosses who keep our system ticking. The progress implicit in the word “enterprise” must flow largely from the efforts of these men and women, backed up by all their fellow Americans.

And pray God that all of us who share this burden have the wisdom to show the same concern for spiritual and moral advancement as for material progress. To do this, we need not be saints but we can hold to our ideals and standards. We’re all going to make mistakes, big and little, along the way. But we must try to minimize our mistakes and maximize proper conduct. We will find that this is the most satisfying and effective way to maximize our profits and to improve our society.

APPENDIX

The statement on business ethics which appears as an appendix to this book was written by the Business Ethics Advisory Council and issued at its White House meeting with President Kennedy on January 16, 1962.

I had organized the Council in the spring of 1961, following the decision of Federal Judge Ganey in the electrical industry anti-trust case. That case, and a number of other previously reported instances of misconduct by businessmen, had led me to feel that a continuation of such practices, even by a minority of businessmen, could undermine the public confidence in business which has been built up so painstakingly.

With the approval of the President, I called together a group of outstanding businessmen, educators, clergymen, and journalists to try to find some ways by which

business could help itself to improve its ethical performance. I felt that the group might be able to explore some approaches to the development of ethical guidelines that could be useful to the business community.

The Council concluded that it could best aid American businessmen, not by drafting a broad code for all businesses, but by calling to the attention of businessmen the need for managerial soulsearching within each company and industry to devise specific ethical guidelines for the resolution of real problems.

Since issuing its Statement, the Council has been engaged in conducting a program to implement its recommendations. This involves working directly with business leaders, encouraging greater participation of leading religious groups in the improvement of business ethics, looking into the study of business ethics in our collegiate schools of business administration, and initiating studies-in-depth of important and perplexing ethical problems that face the business community.

A Statement on

Business Ethics and a Call for Action

The ethical standards of American businessmen, like those of the American people, are founded upon our religious heritage and our traditions of social, political, and economic freedom. They impose upon each man high obligations in his dealings with his fellowmen, and make all men stewards

of the common good. Immutable, well-understood guides to performance generally are effective, but new ethical problems are created constantly by the ever-increasing complexity of society. In business, as in every other activity, therefore, men must continually seek to identify new and appropriate standards.

Over the years, American businessmen in the main have continually endeavored to demonstrate their responsiveness to their ethical obligations in our free society. They have themselves initiated and welcomed from others calls for the improvement of their ethical performance, regarding each as a challenge to establish and meet ever higher ethical goals. In consequence, the ethical standards that should guide business enterprise in this country have steadily risen over the years, and this has had a profound influence on the performance of the business community.

As the ethical standards and conduct of American private enterprise have improved, so also has there developed a public demand for proper performance and a keen sensitivity to lapses from those standards. The full realization by the business community of its future opportunities and, indeed, the maintenance of public confidence requires a continuing pursuit of the highest standards of ethical conduct.

Attainment of this objective is not without difficulty. Business enterprises, large and small, have relationships in many directions—with stockholders and other owners, employees, customers, suppliers, government, and the public in general. The traditional emphasis on freedom, competition, and progress in our economic system often brings the varying interests of these groups into conflict, so that many difficult and complex ethical problems can arise in any enterprise. While all relationships of an enterprise to these groups are regulated in some degree by law, compliance with law can only provide a minimum standard of conduct. Beyond legal obligations, the policies and actions of businessmen must be

based upon a regard for the proper claims of all affected groups.

Moreover, in many business situations the decision that must be made is not the simple choice between absolute right and absolutely wrong. The decisions of business frequently must be made in highly complex and ever-changing circumstances, and at times involve either adhering to earlier standards or developing new ones. Such decisions affect profoundly not only the business enterprise, but our society as a whole. Indeed, the responsible position of American business—both large and small—obligates each participant to lead rather than follow.

A weighty responsibility therefore rests upon all those who manage business enterprises, as well as upon all others who influence the environment in which business operates. In the final analysis, however, the primary moral duty to establish high ethical standards and adequate procedures for their enforcement in each enterprise must rest with its policymaking body—its board of directors and its top management.

We, therefore, now propose that current efforts be expanded and intensified and that new efforts now be undertaken by the American business community to hasten its attainment of those high ethical standards that derive from our heritage and traditions. We urge all enterprises, business groups, and associations to accept responsibility—each for itself and in its own most appropriate way—to develop methods and programs for encouraging and sustaining these efforts on a continuous basis. We believe in this goal, we accept it, and we encourage all to pursue its attainment.

Some Questions for Businessmen

The following questions are designed to facilitate the examination by American businessmen of their ethical standards and performance. They are intended to illustrate the kinds of questions that must be identified and considered by each business enterprise if it is to achieve compliance with those high ethical standards that derive from our heritage and traditions. Every reader will think of others. No single list can possibly encompass all of the demands for ethical judgments that must be met by men in business.

1. General Understanding: Do we have in our organization current, well-considered statements of the ethical principles that should guide our officers and employees in specific situations that arise in our business activities, both domestic and foreign? Do we revise these statements periodically to cover new situations and changing laws and social patterns?

Have those statements been the fruit of discussion in which all members of policy-determining management have had an opportunity to participate?

Have we given to our officers and employees at all levels sufficient motivation to search out ethical factors in business problems and apply high ethical standards in their solution? What have we done to eliminate opposing pressures?

Have we provided officers and employees with an easily accessible means of obtaining counsel on and resolution of ethical problems that may arise in their activities? Do they use it?

Do we know whether our officers and employees apply in their daily activities the ethical standards we have promul-

gated? Do we reward those who do so and penalize those who do not?

2. *Compliance with law*: Having in mind the complexities and ever-changing patterns of modern law and government regulation:

What are we doing to make sure that our officers and employees are informed about and comply with laws and regulations affecting their activities?

Have we made clear that it is our policy to obey even those laws which we may think unwise and seek to have changed?

Do we have adequate internal checks on our compliance with law?

Have we established a simple and readily available procedure for our officers and employees to seek legal guidance in their activities? Do they use it?

3. *Conflicts of interest*: Do we have a current, well-considered statement of policy regarding potential conflict of interest problems of our directors, officers and employees? If so, does it cover conflicts which may arise in connection with such activities as: transactions with or involving our company; acquiring interests in or performing services for our customers, distributors, suppliers and competitors; buying and selling our company's securities; or the personal undertaking of what might be called company opportunities?

What mechanism do we have for enabling our directors, officers and employees to make ethical judgments when conflicts of interest do arise?

Do we require regular reports, or do we leave it to our directors, officers and employees to disclose such activities voluntarily?

4. *Entertainment, gifts, and expenses*: Have we defined our company policy on accepting and making expenditures for

gifts and entertainment? Are the criteria as to occasion and amount clearly stated or are they left merely to the judgment of the officer or employee?

Do we disseminate information about our company policy to the organizations with which we deal?

Do we require adequate reports of both the giving and receiving of gifts and entertainment; are they supported in sufficient detail; are they subject to review by appropriate authority; and could the payment or receipt be justified to our stockholders, the government, and the public?

5. Customers and suppliers: Have we taken appropriate steps to keep our advertising and sales representations truthful and fair? Are these steps effective?

How often do we review our advertising, literature, labels, and packaging? Do they give our customers a fair understanding of the true quality, quantity, price and function of our products? Does our service as well as our product measure up to our basic obligations and our representations?

Do we fairly make good on flaws and defects? Is this a matter of stated policy? Do we know that our employees, distributors, dealers and agents follow it?

Do we avoid favoritism and discrimination and otherwise treat our customers and suppliers fairly and equitably in all of our dealings with them?

6. Social responsibilities: Every business enterprise has manifold responsibilities to the society of which it is a part. The prime legal and social obligation of the managers of a business is to operate it for the long-term profit of its owners. Concurrent social responsibilities pertain to a company's treatment of its past, present and prospective employees and to its various relationships with customers, suppliers, government, the community and the public at large. These responsibilities may often be, or appear to be, in conflict, and at times a management's recognition of its broad responsibilities

may affect the amount of an enterprise's immediate profits and the means of attaining them.

The problems that businessmen must solve in this area are often exceedingly perplexing. One may begin his reflections on this subject by asking:

Have we reviewed our company policies in the light of our responsibilities to society? Are our employees aware of the interaction between our business policies and our social responsibilities?

Do we have a clearly understood concept of our obligation to assess our responsibilities to stockholders, employees, customers, suppliers, our community and the public?

Do we recognize and impress upon all our officers and employees the fact that our free enterprise system and our individual business enterprises can thrive and grow only to the extent that they contribute to the welfare of our country and its people?

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